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Seven principles for effective firm management

J. Curt Mingle

American Institute of Certified Public Accountants. PCPS Management of an Accounting Practice Committee

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Issued by the PCPS Management of an Accounting Practice Committee

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Dedication

This book is dedicated to the partners and employees of Clifton Gunderson LLP—past, present, and future-and especially to my life partner and wife, Evelyn Mingle.

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Introduction

The seven principles covered in this book are critical to the long-term success of every firm. I am sure there are other principles about the business of public accounting. This is not intended to be a scholarly work. It is intended to point out some principles about the business of public accounting based, for the most part, on my many years of experience at Clifton Gunderson LLP, and knowledge gained from working with other CPA firms of all sizes for more than a quarter of a century.

All firms have only two resources: time and money. It is important in the competitive business environment of today that everyone in the organization has a clear understanding of how these resources should be spent. Don't forget that time is the most perishable inventory in the world!

These are trying—but exciting—times in our profession's history. A common-sense approach to your business is an important step in your quest across some uncharted waters. It is a great profession with a proud history of service. Hopefully, some of the concepts and ideas in this book will help you and your firm continue to achieve your personal and business goals.

If You Don't Know Where You Are Going, You Will End Up There

Chapter 1

In high school English class, we were required to read a number of books. One of these required books was *A Tale of Two Cities* by Charles Dickens. The opening line of that book was, "It was the best of times; it was the worst of times." In many ways, this opening line by Dickens describes the practice of public accounting today. While opportunities are outstanding, the road to success leads through a minefield. All of us need to look carefully at the present environment of public accounting and recognize that we are, once again, in a transition period.

There are two major forces at work that affect all firms of all sizes. They are as follows:

1. **Consolidation of the profession.** We are experiencing a consolidation of the profession. Firms at all levels—local, regional, and national—are merging or being acquired. The engine that is driving this consolidation is client demand for new services and products. Firms are merging or being acquired in order to have the resources to develop these new services and products. If they fail to deliver the services and products that clients demand, they run the risk of losing these clients to firms that have the resources to develop these services and products. The second major force is closely aligned to this consolidation of the profession.
2. **Transition from an accounting profession to a financial services industry.** Again, this is being caused by client demand for increased services and products. In most cases, we are our clients' most trusted advisers. At our firm, Clifton Gunderson LLP, we recognize these forces, and have incorporated changes to meet this changing environment. We know we are no longer in "just" the accounting business; we are in the business of helping our clients become successful. We are in the business of helping our clients reach their goals. This takes new thinking, new resources, and new structure.

It is absolutely critical to the continued success of your firm that all owners and staff have a very clear understanding of the firm's strategic plan. The world of public accounting has changed and will continue to change in the future. When the world changes and you do not change…you lose. What worked in the old model will not necessarily work in the new model.

Paradigms

Joel Barker, in his book *The Business of Paradigms*, discusses major changes that occur that make existing and effective systems, structures, and "rules" no longer valid. Webster defines "paradigm" as "a pattern." We all follow patterns or rules in all facets of our lives. This is particularly true when the patterns or rules have led to past success. The problem is that we all tend to fall in love with our own patterns and rules. Our pattern or way to do things becomes *the only way*. As Barker points out, when a rule or pattern changes and you or your firm do not, you lose. When a paradigm shifts, everyone goes back to zero. You must choose early in the paradigm shift to embrace the "new way" or you will be left behind. Past success does not guarantee future continued success when the rules change.

The "rules" in public accounting have dramatically changed in recent years and will continue to do so in the future. Firms that do not have a plan for their future will not have a future.

I began my career in public accounting in the 1960s. Following is a list of some of the paradigms or "rules" in effect at that time:

- Females were not part of the professional staff. (Why? Clients won't accept them.)
- Public accounting is a full-time job; part-time employees are rare.
- The firm is your life. We really don't care much about your personal life; we care about charge hours and realization.
- Marketing is not only unprofessional, it is illegal and could lead to the loss of your license to practice.
- The basic shape of the firm was the pyramid. In fact, one of the measures of success among larger firms was the partner-staff ratio. The more staff per partner, the more financial success the partner enjoyed.
- Entry-level staff were called "juniors" and were expected to work rather than think. They were given the lowest level of routine, boring work. Those that put up with it long enough were promoted to "senior" or in some firms "semi-senior."
- Firms were labor-intensive, and long hours with high charge hours were the standard for financial success.
- Capital was not particularly important in this labor-intensive industry. Technology spending usually meant having 10-key adding machines rather than full keyboard.
- Stress was good. For those of you with military experience—think "basic training."
- It was "my way or the highway." Autocratic management was the norm, and staff certainly didn't challenge partners or even their immediate supervisors.

- At Clifton Gunderson, we had this concept called SALY—Same As Last Year. All in all, the early years in public accounting for us "grunts" were routine and boring.
- Clients are forever. Since marketing was unprofessional and, in most cases, illegal, it was assumed that clients were forever. In Illinois, at the time, it was against the law to propose to a potential client if it required a fixed or maximum fee!
- Partners are forever. Once you became a partner, you had a lifetime job. A possible exception would be a conviction for a serious felony. Outplacing of partners was almost unheard of in the 1960s.
- Only CPAs or CPA candidates were on the professional staff, and ownership was restricted to CPAs.
- Our basic business was accounting, auditing, and tax. Management advisory services (MAS) was just emerging, and was regarded with great suspicion by most partners.
- Never, ever share financial information about the firm with staff. It will only get them to expect a raise.

These are a few of the paradigms or rules from the 1960s. No firm today could survive by following these rules. When the world changes and you don't, you will fail. This is why it is so critical to understand changes and adopt them in order to succeed. The old plan may not work in the new business world. This is why it is so critical that every firm, every office, and, yes, every individual has a strategic business plan that recognizes the reality of our changing business environment.

AICPA Strategic Planning Process

I was a member of the AICPA's original strategic planning committee. This process included the development of specific planning assumptions that will affect CPAs and their firms in the future. Many elements will affect CPAs and the way they perform services in the future, including, but not limited to, the following:

- Demographic changes in our population.
- Changes in the economy (local, national, and world) and in the structure of capital markets.
- Changes in technology.
- Changes in the nature of the actual work we perform for clients as we move from an accounting profession to a financial services industry.

We have already seen these changes and they will continue at an accelerated rate. The truth is that firms must adjust to the new economy and make sure their firm structure and resources are adequate to meet this new market-driven economy. This is a dramatic shift for many firms that are comfortable with the old model. Remember, when a paradigm shifts and you do not—you lose. You need to constantly ask the question, "How will the future affect me, our firm, our clients?"

Strategic Planning

Many CPAs avoid strategic planning because they feel it is only done by large organizations or that it is a complex, highly technical activity that they or their firm are not capable of dealing with. Strategic planning is a simple but critical activity that all organizations—large and small—need to do in order to insure their continued growth and financial success.

A strategic plan is basically a map for the future direction of your firm or company. It answers the question, " What do we want to be?" Remember the acronym from a few years ago? KISS—Keep It Simple Stupid! This is especially important in strategic planning. The process of strategic planning is as simple as answering three questions:

- Where do we want to be in 2010 (or whatever future date you pick)?
- How will we get there?
- Who will get us there?

The first question is answered by the process of reaching consensus. The next two questions will produce an action plan.

The words "strategic planning" strike terror in the hearts of many businesspeople. Yet, despite its imposing name, strategic planning is simply an ongoing process that consists of setting goals and figuring out the best ways to reach them.

There's nothing difficult about it. The process is the same whether you work for a large corporation or operate as a sole proprietor. In fact, if you're a CPA operating an accounting firm, strategic planning offers a double benefit. First, it helps your own firm move forward. Second, at Clifton Gunderson LLP we have found that assisting clients with development of their own organization's strategic plan is a valuable client service. I will discuss this in Chapter 2, "Always Fish in the Pond Where the Fish Are."

I think that strategic planning is so important that I have devoted the rest of this chapter to discussing the specific steps in the strategic planning process.

Step 1—Develop Statement of Purpose

The first step in the strategic planning process is to gather all your key people together to take a look at the firm as it exists right now. What is it that you do? How, when, and where do you do it? And what is it that you've been trying to accomplish? Put your description into a short paragraph. It is your "statement of purpose." For example:

> Smith, Jones & Co., January 1, 20XX. We are a CPA firm with 6 partners and 60 employees generating revenues of $5 million a year. We have offices in New York, Boston, and Baltimore. We provide tax and auditing services to 150 small and mid-sized companies involved in a wide range of businesses. We also audit the records of several local governments. We're trying to expand our services and our client base and improve profitability.

At first blush, such a simple exercise seems silly, and the answer—by most CPAs—would be, "we are in the accounting business." At Clifton Gunderson LLP, we recognize we are in the business of helping our clients be successful. We are in the business of helping our clients achieve their personal and business goals. Notice the difference in focus. Our focus is on the client's success. If we do our job, the firm's success will naturally follow. Sure, we are a CPA firm also—but if you have a focus that is too narrow, you may not meet the needs of the client. Which do you think is most important to the client—their success, or the fact that we are a CPA firm?

This is not just rhetoric. History is littered with failed companies that had a narrow focus and when the paradigm shift happened, they followed their narrow focus directly into bankruptcy. One example is the Penn Central—one of America's largest corporations with a long history of financial success. Penn Central went bankrupt in the 1980s. The problem with Penn Central was they thought they were in the railroad business, the business of moving people and freight from one location to another. Their failure was caused, in part, by two paradigm shifts. The first was the emergence of the airline industry as the primary method of long distance (and in some cases, short distance) travel for people. It was so much faster, it became the new paradigm of business and personal travel. The other change that affected Penn Central and its narrow business focus was the interstate highway system, which made travel by automobile much faster and more efficient. It also changed the preferred method of moving freight. Prior to the end of World War II, most long distance travel was by train and most freight was shipped by train. Dwight Eisenhower was so impressed with Germany's Autobahn during the war that he vowed that the United States would also have an efficient highway system. The development of the interstate highway system, as well as availability of affordable automobiles after World War II, was a major paradigm shift in transportation.

Here is the point…If Penn Central had only realized it was not in the railroad business, but, in fact, in the transportation business, it would probably still be a major corporation. However, its narrow business focus caused its demise.

Step 2—Identify the Competition

Once you decide what business you are in, the next question to answer is, "Who is the competition?" Don't answer this without a great deal of thought. A wrong answer could be disastrous to your firm. A correct answer can be an opening for significant growth and financial success. As we move more and more towards a financial service industry, make sure you do not limit your thinking to just the other CPA firms that may be your current competition.

A classic example of understanding the competition is this full-page ad by Southwest Airlines in *Time* magazine, which appeared in November 1993:

> We started back in 1971 with three planes serving three Texas cities. In the short-haul markets, most people will drive those distances instead of fly. A lot of people figured us for road kill at the time. But today we've got 144 airplanes in 34 cities.
>
> We like mavericks—people who have a sense of humor. We've always done it differently. You know, we don't assign seats. Used to be we only had about four people on the whole plane, so the idea of assigned seats just made people laugh. Now the reason is you can turn the airplanes quicker at the gate. And if you can turn an airplane quicker, you can have it fly more routes each day. That generates more revenue, so you can offer lower fares.

As you know, the competition in the airline business industry is classic. Yet, Southwest Airlines has been one of the fastest growing and most profitable airlines for more than a decade. "We don't assign seats" is such a subtle little paradigm shift—yet this simple change gave them a critical advantage in a highly competitive industry.

Step 3—Analyze Strengths and Weaknesses

Now that you've identified what the firm does, take a look at how well it does it. What are its strengths and weaknesses? What does it handle successfully? What needs improvement? And, in the case of a partnership, what are the key contributions each partner makes, such as management ability, bringing in new business, keeping up with new regulations, and so on. To simplify the process of identifying strengths and weaknesses, analyze the business along functional lines. Examples of six relevant categories follow.

1. **Marketing.** Are you positioned clearly in terms of the clients and businesses you serve? What are your principal methods of generating new business—advertising, word of mouth, and so on? Do you enjoy a good reputation within the business community and the community at large?
2. **Sales.** Have you periodically increased the volume of business from your regular clients or customers? Is total revenue increasing? Is it meeting previous projections? Are you aware of potential problems that could affect your gross income in the future?
3. **Administration.** Does your business run smoothly, even during peak periods? Are you getting maximum productivity from partners or key executives? From staff? From equipment? Do you handle staffing well? Are you satisfied with suppliers of products and services? Are you holding costs down as well as possible?
4. **Personnel.** Do you have people being groomed for partnership and top management positions? Have you had difficulty recruiting? Do you have problems with turnover? Are you planning for future hiring needs, particularly in light of the current and projected labor shortages? Are your firm's or company's salaries and benefits in line with those at similar firms or companies? Is morale generally high?
5. **Data processing.** Does your computer system handle your current needs? Does it have the capability to be expanded? Are you getting the most from the hardware and software you use now?
6. **Finance.** In looking at both balance sheets and income statements for the past three years, what do you see? How are your cash flow and accounts receivable? What is the ratio of expenses to revenue? The ratio of personnel costs to revenue? The amount of revenue per employee?

After answering questions such as these, you should have a good picture of your operations and of what helped you achieve success up to this point.

Step 4—Pinpoint the Driving Force

Now, take it one step further. The group should pinpoint the firm's or company's single greatest strength. Is it the variety of services you offer? The way you deliver services—with speed, personal attention? Is it your reputation for honesty and dependability? For being available whenever your clients need you?

That key strength is known as the "driving force." It's the factor that's going to be evident in all aspects of your business in the future. And it's the feature that's going to set you apart from your competitors.

Now let's summarize what you've accomplished with strategic planning so far. You've highlighted the purpose of the firm or company. You've analyzed its strengths and weaknesses. And you've zeroed in on the reason(s) you've been successful. Now that you have a clear picture of where your business stands, you're ready to look ahead.

Step 5—Define Where You Want to Be in Five Years

Of course, you want to become "the biggest, the best, the most highly regarded" or some other combination of glowing superlatives. But the problem with listing such vague objectives is that it's hard to know when, or even if, you can attain them. Instead, be specific. Spell out your goals in measurable terms. Focus on criteria such as:

- The volume of revenue you hope to be generating in five years.
- The number and locations of offices, stores, or plants you want to be operating.
- The number of employees you expect to have.
- The nature of your practice or business.
- The industries you intend to serve.
- The number of new clients or customers you want to attract.

If yours is a small operation, with only one or two executives, it's relatively easy to envision the future and establish goals. On the other hand, if you're dealing with a large or multipartner operation, or with a family-owned business, it's important for each partner, executive, or family member to write down independently what he or she sees as the entity's best direction in terms of the criteria listed above.

After each individual's goals have been identified, it's essential to reach a consensus. We need to be sure that everyone participating in the process is on the same page when it comes to the firm's strategy for its future. Again, remember that for strategic planning to be successful, it must be a team effort, with members brainstorming together. Once you reach a consensus, refer to that composite view of the future as your statement of goals; it's what you will be working toward.

This is where the hypothetical Smith, Jones & Co. expects to be five years down the road:

> Smith, Jones & Co., January 1, 20XX. We are a CPA firm with 10 partners and 100 employees generating annual revenues of $8 million. We have offices in six mid-Atlantic cities. We provide tax and accounting services, plus financial consulting services to 250 small and mid-sized companies, most of whom are in manufacturing industries.

The statement needn't be lengthy or complicated. But it must be absolutely clear because it is going to become the basis of every decision you make. From now on, projects will get the go-ahead or be shelved, money will be allocated or denied, and new ventures will be undertaken or abandoned on the basis of whether they help the firm reach these goals.

Step 6—Identify What's Going to Affect You

In the best of all possible worlds, you and your partners or executives could decide what needs to be done and simply do it. But, of course, there will be unforeseen developments that affect the most well considered plans. And while you can't know everything that's going to pop up, you can recognize the trends already taking shape and those likely to develop.

The AICPA's Strategic Planning Committee worked for almost two years developing 90 assumptions about the future. Not all will affect your business. But you should consider those that are likely to have the greatest impact on your firm or company, and incorporate them into your plans. Among those most likely to affect all businesses are:

- Increased competition.
- Expansion of international operations.
- Demand for a wider range of nonaccounting and nonauditing services.
- Increasing reliance on computers and automated equipment.
- Expansion of industry regulations and standards.
- Move toward decentralized management and away from pyramid structure in organizations.
- Increased pressure on profitability, in terms of rising costs for rent, salaries, and benefits and the resulting need for increased productivity.
- Hiring difficulties in the future—decline in birthrate resulting in fewer entry-level workers; increased need to train workers who lack specific skills and experience.
- Increased use of paraprofessionals.

- Greater ongoing training needs, for all members of the firm or company.
- Likelihood of increased turnover.
- More demand for lifestyle assistance—for example, parental leave; help with dependent care; need for flexible and part-time scheduling.

Some of these require action now. Others simply should be kept in mind. What's important is that you be aware of them and know what you're likely to be up against so you can act when it becomes necessary.

Step 7—Develop Action Plans

At this point, you and your partners or other managers must decide what you need to do to reach your stated goals by the target date—in this case, five years. This is the nuts and bolts of the entire strategic planning process and the part that involves developing an action plan.

The action plan is critical to the implementation of your strategic plan because it establishes actions and pinpoints individual responsibilities and due dates for action.

It is not enough to develop a strategic plan for your firm. You must have a specific action plan that results in the actions necessary to implement the plan. This is also a simple process, but it does require accountability. The plan should list every action needed during the life of the strategic plan, who is responsible for the action, and a specific date as to the completion of the action. Strategic planning without an action plan is a waste of time.

It is also important to note that throughout the process of strategic planning it is important to have complete documentation of all meetings, consensus reached on issues, and specific actions to be taken.

Again, it makes sense to break the whole into parts, as was done in identifying strengths and weaknesses. For example, if the statement of goals notes the firm's or company's commitment to expanding into three more cities within five years, every department will need to be involved in planning and executing the expansion. You might begin by having all partners or executives address the following questions:

1. Which cities represent the best places to expand and where should the first new office be located? You'll want to consider such factors as potential clients or customers and volume of business; existing competition; the state of the local economy; the size of the labor pool; and the availability of suppliers.

2. Will you open a new office or acquire an existing firm or business?
3. If you open an office, should you build a new facility or lease space? What equipment would you need to buy or lease? Does it make more sense to have current partners or executives set up the new operation or to hire people to handle the details? On the other hand, if all of you like the idea of a merger or acquisition, are there good prospects in that area?
4. Who would staff the new office? If you bought an existing firm or business, would you keep the employees already on the payroll, relocate some of your own staff, or hire new people? What type of support services or training would be needed?
5. Could your current computer system handle the expansion you're considering? If not, could you build on the existing system or do you need to buy new equipment?
6. What would the expansion cost, considering all of the variables? At what point would the operation become profitable?

Who should do what? That depends on who already does what and how well. If yours is a small CPA firm, assignments for developing concrete plans should be based on both interest and expertise. On the other hand, if you're helping develop a plan for a larger corporation, it's wise to let executives do what they do best—handle marketing, finance, personnel, or whatever.

Once individual assignments are agreed to, set a deadline. Schedule a meeting for, say, one month from the day the statement of goals is adopted. Ask each partner or department head to present the results of his or her research at that time. Each person then should offer ideas, suggestions, and possible solutions to the problems encountered. Encourage communication between department heads to minimize problems brought on by conflicting needs and limited resources.

An important caveat: As you develop your plans, always focus on your firm's or company's goals and strengths. One of the biggest mistakes entities make is to throw money at weakness rather than build on what the organization and its individual partners do best.

For example, assume one of your goals is to bring in new business, and, for the sake of argument, one of your partners (Bob) is a genius with numbers but hates meeting new people and fades into the woodwork at social gatherings. It would be a waste of time and money to suggest, with the hope that he'll become friendlier and generate new contacts, that Bob become a member of the local golf club.

That doesn't mean you shouldn't consider joining the golf club. Instead, let Bob stay at the office, doing what he enjoys most and does best, and have the more socially adept partners represent the firm at tee-off time.

Step 8—Monitor How the Firm Is Progressing

After the first brainstorming session, have partners or executives develop increasingly specific plans. If your firm is multi-office, each office should develop its own plan and all office plans should fit together to achieve the firm plan. Let them establish their own deadlines and regularly report to the managing partner, chief executive officer, or whoever is in charge of the planning operation. Then periodically schedule group meetings to monitor progress. If you have offices in other locations, the partner in charge of each should oversee the development of a plan that fits in with the firm's or company's overall goals. That partner should also attend group meetings.

Remember that strategic planning doesn't mean writing down the "shoulds" and filing them in a drawer. Planning is an ongoing process. On the other hand, your plan isn't a document written in stone. Things happen. Changes take place. Any good plan needs to be reviewed periodically and revised when necessary.

How often should you review it? At the very least, schedule an annual planning session—say, during a retreat—when phone calls and day-to-day crises can't interrupt the meeting. In addition, department and local office plans can be checked every few months or as often as it seems appropriate.

Good strategic planning involves teamwork, communication, and commitment. But it's worth the effort. As soon as you begin, you'll have greater control of your business and keep it moving steadily forward.

A Final Thought

This chapter is titled, "If You Don't Know Where You Are Going, You Will End Up There." The world has changed for accounting firms, and we also need to change. For most firms, this means a change of direction. Change produces opportunity. If you are prepared. If you plan. If you implement your plan.

Focus clearly on the future of your firm. Keep it simple, but make sure you carry out your plan. Make sure you have a clear vision and can see where you are headed. Don't fall in love with the plan. If circumstances change, be ready to alter your course.

In Stephen R. Covey's national bestseller, *The Seven Habits of Highly Effective People*, there is a great story that illustrates this point. This story is as follows:

> Two battleships assigned to the training squadron had been at sea on maneuvers in heavy weather for several days. I was serving on the lead battleship and was on watch on the bridge as night fell. The visibility was poor with patchy fog, so the captain remained on the bridge keeping an eye on all activities.
>
> Shortly after dark, the lookout on the wing reported, "Light, bearing on the starboard bow." "Is it steady or moving astern?" the captain cried out.
>
> Lookout replied, "Steady, captain," which meant we were on a dangerous collision course with that ship.
>
> The captain then called to the signalman, "Signal that ship: We are on a collision course, advise you change course 20 degrees."
>
> Back came a signal, "Advisable for you to change course 20 degrees."
>
> The captain said, "Send, I'm a captain, change course 20 degrees."
>
> "I'm a seaman second class," came the reply. "You had better change course 20 degrees."
>
> By that time, the captain was furious. He spat out, "Send, I'm a battleship. Change course 20 degrees."
>
> Back came the flashing light, "I'm a lighthouse."
>
> We changed course.

Always Fish in the Pond Where the Fish Are

Chapter 2

I don't know anything about fishing. We do, however, have a partner in Colorado who sees himself as a world class fly-fisherman. It doesn't matter, since this chapter is not about fishing. It is about marketing.

Many firms waste a lot of time and money "fishing" in the wrong pond for new clients. This is caused, in part, by the fact that there is a great deal of misinformation about the marketing of professional services. Much of this misinformation is because most firms start from the wrong premise. That wrong premise is: The purpose of marketing is to obtain new clients. Following this false premise causes firms and their owners and employees to spend a lot of time and money trying to get someone else's clients.

Marketing is an integral part of the business operation of today's professional services firm. It is not a "sometimes" activity, done on a part-time or seasonal basis. This is true not just for CPA firms but for all businesses.

The Difference Between Marketing and Selling

Some firms and some professionals do not understand the difference between selling and marketing. Most of us in the accounting profession had little exposure to marketing education. In my case, it amounted to one course in college, and that was a very general overview that did little to provide me with the skills I needed in public practice. This is not a criticism of the college or university system. The primary task of the accounting department is to teach students the necessary skills and facts to pass the CPA examination. Very little is taught on the business of public accounting. That education, including marketing, is left for the firms to provide. The difference between selling and marketing is subtle, but important:

- *Selling* is the process of persuading the client or customer to buy something because it satisfies your needs, for example, a need to increase fees or use available excess time of staff or partners.
- *Marketing*, by contrast, is the process of finding out clients' needs and then persuading them that your product or service can meet those needs.

Guess which approach is easier to accomplish and which approach clients prefer?

Marketing is getting your team a chance to bat in the game. Selling is getting a base hit for the team. Everyone can get an "at bat," but not everyone is skillful enough to get a "hit." That is the reason why marketing is a team (firm) activity.

The Process of Marketing

Firms sometimes fail at an effective marketing program because they start with the wrong premise (that the purpose of marketing is to get new clients). Another reason for failure is that some see marketing as an action rather than as a process. The process of marketing has four major steps, as follows:

1. **Deliver a quality service.** This is the first and most important step. Make sure the client perceives that he or she is receiving value for the fees paid.
2. **Create a public image.** Develop an identifiable image and communicate that image through memberships, seminars, advertising, public relations, and so on. The purpose is to become known as someone of substance and value within the community and the profession.
3. **Develop business contacts.** Get to know the people who make or influence buying decisions. Become closer to the potential clients and sales opportunities.

   The first three steps of marketing provide unlimited opportunities and a pool of potential clients. To take advantage of those opportunities and turn that pool of potential clients into actual clients takes the fourth step.
4. **Develop selling skills.**

The order of the four steps to effective marketing is critical. Note that the last step is to develop selling skills. Without the first three steps, you are wasting your energy with step 4.

Effective Marketing

The correct premise for building a firm foundation for an effective marketing program is: *The purpose of marketing is to have (not get) clients*. Marketing is a total business activity, not just selling. Marketing is a process. It is not hit or miss advertising. It is not belonging to a service club. It is not a series of projects. It must be a totally integrated effort and process. It is not a "sometimes" activity that you do outside busy season. In fact, the most effective marketing effort should be during busy season when you have contact with most of your clients.

Remember that the purpose of marketing is to *have* clients. The easiest clients to "have" are the ones that you have now!

The title of this chapter is "Always Fish in the Pond Where the Fish Are." The point is that if you do not know where new business is coming from, you might be wasting your time fishing in the wrong pond. At Clifton Gunderson LLP we have found that most of our new business comes from our present clients. By new business, I mean new clients as well as additional services for our present clients. This does not mean that your marketing efforts should not include efforts to obtain new clients directly. It does mean, however, that the majority of your marketing efforts should be focused on your present client base.

How do we know that most of our new business comes from our present clients? We measure every dollar of new business. This process will be discussed in Chapter 3, "People Do What They Are Rewarded For."

In the book, *Service America in the New Economy*, by Karl Albrecht and Ron Zemke, Scandinavian Airlines SAS President Jan Carlzon discusses the concept of "moments of truth." He defines moments of truth as "anytime anyone comes into contact with any aspect of your firm or company." Carlzon states, "We have 50,000 moments of truth out there every day."

A CPA firm's most effective marketing happens during the service experience—on the spot where and at the time when service is being delivered (where services are cross-sold or not cross-sold, where service quality is good or poor). This "interactive" marketing function is more vital to the long-term success of our firm than any "traditional" marketing activities. More than 80 percent of our new business results from current client relationships.

Effective marketing is about service and quality. Let's take a minute to discuss what I mean by the term "quality." This concept is sometimes difficult for CPAs because they see quality from the technical point of view. Although this is important to meeting our professional responsibilities, it is not the "quality service" that clients have in mind. In the clients' eyes quality service means on-time delivery and prompt response to the clients' problems. I will discuss this difference in more depth in Chapter 4, "We Are in the Business of Helping Our Clients Be Successful."

Cross-Selling

Earlier I mentioned the concept of cross-selling. Cross-selling means marketing during the service delivery. This could be when you are delivering the financial statements or during an interview with a tax client. It can also be when you visit with a client just to say hello or see some new machine, or anytime you meet with a client. If you don't take time to visit with clients without a specific purpose you are missing a key element of an effective marketing program. Remember that most of your new business comes from your existing clients.

One of the classic examples of effective cross-selling is by McDonald's, the fast food chain.

How many times have you heard, "And would you like fries with that?" when ordering your meal at McDonald's? No matter how fast you try to roll through the drive-thru, the employee taking your order always, without fail, finds the time to say those seven words.

If you thought cross-selling only applied to insurance salespeople, think again. The example above illustrates cross-selling at its best. Studies show that McDonald's has generated over $65 million in revenue from its cross-selling efforts. That's right—$65 million all from seven simple words.

Do you think that we, as accountants and consultants, need to be cross-selling our services? You bet! With competition today fiercer than ever, we need to do everything we can to retain our clients, satisfy their needs, and provide them with value-added services. Keep in mind, if we don't offer our clients the services they need, someone else will!

The current McDonald's cross-selling effort is focused on "Would you like to super size that?" Again, marketing during the product or service delivery is the most effective type of marketing.

Client Service

The purpose of marketing is to have clients. The best clients to have are the ones you have now. They are also your best source of new business. Based on these truths, it sure makes sense to take care of your present clients. A number of years ago, Tom Peters, the author of many best selling business-related books, did a study on why clients leave their CPAs. Here is the result of that study:

1%	die
3%	move out of service area
5%	dislike the service
24%	have some dispute that has not yet been resolved to their satisfaction
67%	feel they were treated discourteously, indifferently, or simply were not given good service

This is truly amazing! Two-thirds of client losses are because they think you don't care about them—and remember, they are your number one source of new business!

From quality service (quality in the client's eyes) comes repeat engagements—the foundation of all firms, new engagements for additional services, and potential new clients by referrals.

To further illustrate the concepts of client service, below are two related discussions—one on the 10 commandments of customer service and one on the circle of quality.

The 10 Commandments of Customer Service

Nowhere is the basic premise of "the purpose of marketing is to have clients" made more clearly than in Carl Sewell's book, *Customers For Life*, published by Pocket Books, a division of Simon & Schuster, Inc. in 1990. This book is required reading at Clifton Gunderson LLP. Tom Peters said, "Sewell's approach to service will work equally well for companies big and small. It encourages you to dig in, chuckle, ponder—and take action now." Sewell's book is based on his "10 Commandments of Customer Service." They are as follows:

1. *Bring 'em back alive*. Ask customers what they want and give it to them again and again.
2. *Systems, not smiles*. Saying please and thank you doesn't insure you'll do the job right the first time, every time. Only systems guarantee you that.
3. *Under promise, over deliver*. Customers expect you to keep your word. Exceed it.
4. *When the customer asks, the answer is always yes.* Period.
5. *Fire your inspectors and consumer relations department*. Every employee who deals with clients must have the authority to handle complaints.
6. *No complaints? Something's wrong*. Encourage your customers to tell you what you're doing wrong.
7. *Measure everything*. Baseball teams do it. Football teams do it. Basketball teams do it. You should, too.
8. *Salaries are unfair*. Pay people like partners.
9. *Your mother was right*. Show people respect. Be polite. It works.
10. *Japanese them*. Learn how the best really do it; make their systems your own. Then improve them.

Warning: These 10 rules aren't worth [a darn]…unless you make a profit. You have to make money to stay in business and provide good service.

This warning is important. In order to best serve your clients, you must stay in business and to do that you must make a profit.

One of our founding partners, Neil E. Clifton, had a sign in the office. It read "If you don't have time to do it right—when will you have time to do it over?" This philosophy, like Carl Sewell's 10 Commandments of Customer Service, is the difference between success and failure for many firms.

The Circle of Quality

I am a firm believer in commandment number 10: "Learn how the best really do it; make their systems your own. Then improve them." Throughout my career I have been an active participant in Management of an Accounting Practice (MAP) conferences, MFR (Management For Results—Don Scholl's excellent management training program) reunions, and other practice management forums where you can learn from other firms and individuals. Many years ago at an MFR reunion one of the participants shared a concept that finally made me understand the difference between quality in the CPA's eye and quality in the client's eye. I call it the circle of quality, which is shown in Exhibit 2-1, "Circle of Quality."

The center bulls eye is the technical aspect of what we do for clients. It is the "CPA stuff" that is important to meet our technical and professional responsibilities. However, to the client, it is a small circle and, to a large extent, a part of the quality circle the client doesn't really understand. The middle circle is the quality of service. This is really important to the client. Do you really even want to try to understand how they fixed your car's transmission problem? Of course not—you just want it to work and to have the job done when it was promised at the cost you expected. Then you would say you received quality service from your car dealer, even if you didn't have a clue what they did to fix the transmission. That is exactly how most of our clients feel about the services and products we deliver.

Did you ever try to explain a highly technical issue to a client only to be met with a blank stare? I remember once trying to explain the alternative minimum tax to a small corporate tax client. It was no big deal, just a couple of hundred dollars. My client looked at me like I was explaining Einstein's theory of relativity. After a long pause, he said, "I don't understand all that CPA stuff and I don't want to try—that's what I pay you for." Don't waste a lot of time trying to explain technical issues to clients. They don't understand, and they don't care. They care about "on time" at expected cost and keeping them out of trouble with the IRS. That is what the client means by the term quality.

The final outside circle in the three circles of quality is what separates the successful firms from the others. That is the quality of the relationship. This is the circle of quality that says, "We care about you, your goals, your business, your family." We totally embrace this concept at Clifton Gunderson LLP. In fact, "When relationships count" is our marketing brand. This is about understanding the client, their business, their concerns and issues. It is also about funerals, weddings, and graduations. It is about being there as a friend, as a "partner"—not just a CPA. I learned this from one of our founding partners, Joseph DeBruyn. Today, this is called "24-7"—meaning we are available if needed 24 hours a day and 7 days a week. Joe was practicing this long before it became a "jingle" and part of our culture.

Referrals

It is okay to ask your clients for referrals. Let them know how much you enjoy working with clients in their particular industry, and helping them reach their personal and financial goals.

Two words of caution to those of you who like to be seen as a martyr (defined by Webster's as "a great or constant sufferer"). Stop it! Nothing turns off a good referral source as quickly as whining about how busy or tired you are, or how many hours you are working. Why would the referral source want to increase your burden and suffering by sending you a new client? In addition, if the referral source is a client, they may worry that you may not be able to get their work done.

The message you want to leave with referral sources is, "Business is good and we are looking for more."

Listening to Clients

The most important skill needed for interactive marketing to be effective is the skill of listening. Unfortunately, once again, few CPAs have had any formal training to develop this critical skill. In order to properly serve your clients and meet their needs, you must develop this skill.

You need to let clients know you care about them and their business and personal success. Clients don't care what you know—until they know you care. Let them know you care about their concerns and problems. Your present clients are your most valuable tools in an effective marketing program. You have already developed a relationship with your present clients, a relationship based on mutual trust and respect.

Understanding the perception of the client is critical to service success. In order to understand your client, you must listen to them. Find out what's keeping them awake at night. Rest assured, it is not the latest FASB or tax law change.

What do clients consider valued service? Do not assume you know the answer to this critical question. A number of years ago, we hired an advertising/marketing research firm to help us answer this important question. The results of their study are shown in Exhibit 2-2, "Focus Group Findings."

Note that one of the key findings of this research was the need to have *industry-related experience*. This was the single most important criterion in selecting the firm. In other words, do they understand my problems, my concerns, my industry? Accordingly, figure out what you do best and concentrate on doing more of the same. You, like Clifton Gunderson LLP, do not have the resources to do everything or serve every area of practice. Concentrate on the services and industries where you have experience and success. This will help set you apart from other firms. Know the industry and build on your strengths.

Communicating With Clients

Communication, which includes the skill of listening, is the lifeblood of any effective marketing program. Following is a list of communication vehicles in the order of their importance:

1. Face-to-face meeting
2. Telephone call
3. E-mail
4. Personalized letter
5. Form letter or brochure

Note that only the first two options give you the opportunity to listen.

Some firms even use their billing process as a marketing tool. Each bill has a statement at the bottom that reads "We appreciate your business and referrals—if you are satisfied, please refer us—if not, call us." Some firms use direct mail. This generally is not very effective since it doesn't include the critical marketing activity of listening. We have had some success with direct mail for specific products.

Remember that it is all about letting the client know you care about them. We have a series of postcards that we call "we love you letters." They basically just let the client know we are thinking about them. *Always* be sure to thank a client for a referral—even if it doesn't result in a new client. Let the client know you appreciate the referral. A small gift with the letter of thank you is appropriate.

Below are discussions of three other popular marketing tools used to communicate with clients.

Brochures

If you have a firm brochure or are considering one, make sure its content is client-focused, not firm-focused. If possible, develop industry-specific brochures that emphasize your understanding of each "highly unique industry." Remember the focus studies mentioned earlier in this chapter. Industry knowledge is the number one factor in CPA firm selection. If you have expertise in a particular industry, be sure to attend industry trade shows and seminars. Offer your services as a speaker or co-sponsor of the event.

Newsletters

A lot of money has been spent on client newsletters. Some firms buy a standard newsletter, while others publish one themselves. Whether you buy or write, it is important to keep the "CPA talk" to a minimum. Keep it simple with a low "fog" index. Ask your clients if they have a friend who would like to receive a copy of the newsletter. Try to feature client success stories, with their permission and review, of course. This demonstrates your firm's focus on your client's success. This is the very image you want to promote. Be sure to give the featured client plenty of extra copies to give to friends and associates. They will tend to give them to associates in their industry. This is just what you want to happen. It demonstrates your knowledge of the industry of the featured client. Remember, the number one factor in selecting a CPA firm is industry knowledge.

Seminars

Seminars are another effective means of marketing. Again, industry-specific is the most effective. It allows you to demonstrate to the audience—clients and nonclients—that you understand their highly complex and unusual industry. Remember, even if the industry is not complex or unusual, the people in that specific industry think it is.

Marketing Plans

Many firms, over the years, have developed marketing plans that fail to deliver the desired results. Usually this is because the plan is vague or doesn't have the necessary follow-up and accountability. Just like a strategic plan, a marketing plan without a specific action plan or accountability is a waste of time. I am reminded of the following story about action: "Five crows are sitting on a fence. Two decide to fly off. How many are left?" The answer, of course, is five.

Deciding to do something is not the same as doing something. Fifty-page marketing plans without action and accountability are a waste of paper. Set specific goals stated in clear terms and hold all participants responsible for their agreed-to responsibilities. Keep the plan simple. Don't try to be all things to all people. Do a few things and do them well. Remember, determine what you do well and do more of it. If your firm's strength is in the hospitality industry, concentrate on more clients in this area and don't waste time on trying to add auto dealers. You'll have a lot more success and will be more profitable. Those firms that have a "one of each" practice—one bank, one GM dealer, one hospital, and so on—generally are not successful financially. The same is true for the nature of services provided. If you only have three audit clients, you really should ask yourself if it makes sense to provide this service. When you develop a marketing plan, with action steps and accountability, take a hard look at your firm's strengths, your competition, and your market. Make sure you have a realistic achievable plan before you start spending firm resources. Then focus clearly on your objectives and demand accountability for results from all participants.

A Final Thought

In the long run, marketing is a lot about attitude, as is almost every other aspect of the business of public accounting. My wife, Evelyn, also a CPA, said it best in a speech I heard more than 25 years ago. She said, "It is your attitude, more than your aptitude, that will determine your altitude." Clever, but also very true. In your hiring process, look for people who understand this. We'll cover this more in Chapter 5, "Match the Workforce to the Workload."

Nothing explains the concept of attitude in client service better than a little story I read many years ago. I don't even remember the source, but I sure remember the message.

> I learned how to do this job in a two-by-four shoe shop.
>
> There was this place, I'm sorry to say he's gone now, where I use to take my shoes to be fixed. It was tiny. And a little out of the way. But I wouldn't think of going anywhere else. Not because the guy did better work than anybody else. That's not the point that I'm really trying to make.
>
> What kept me going back there again and again was the man's attitude. He never forgot my name. Never made a fuss when I came in without the ticket. One time I showed up just as he was locking the front door. He opened up, turned on the lights and found my shoes for me. With a smile on his face.
>
> Nobody had to tell that guy how much people appreciate good service. It just came to him naturally. It was in his blood. It was the only way he knew how to do business. It's the only way we know.

EXHIBIT 2-1:
CIRCLE OF QUALITY

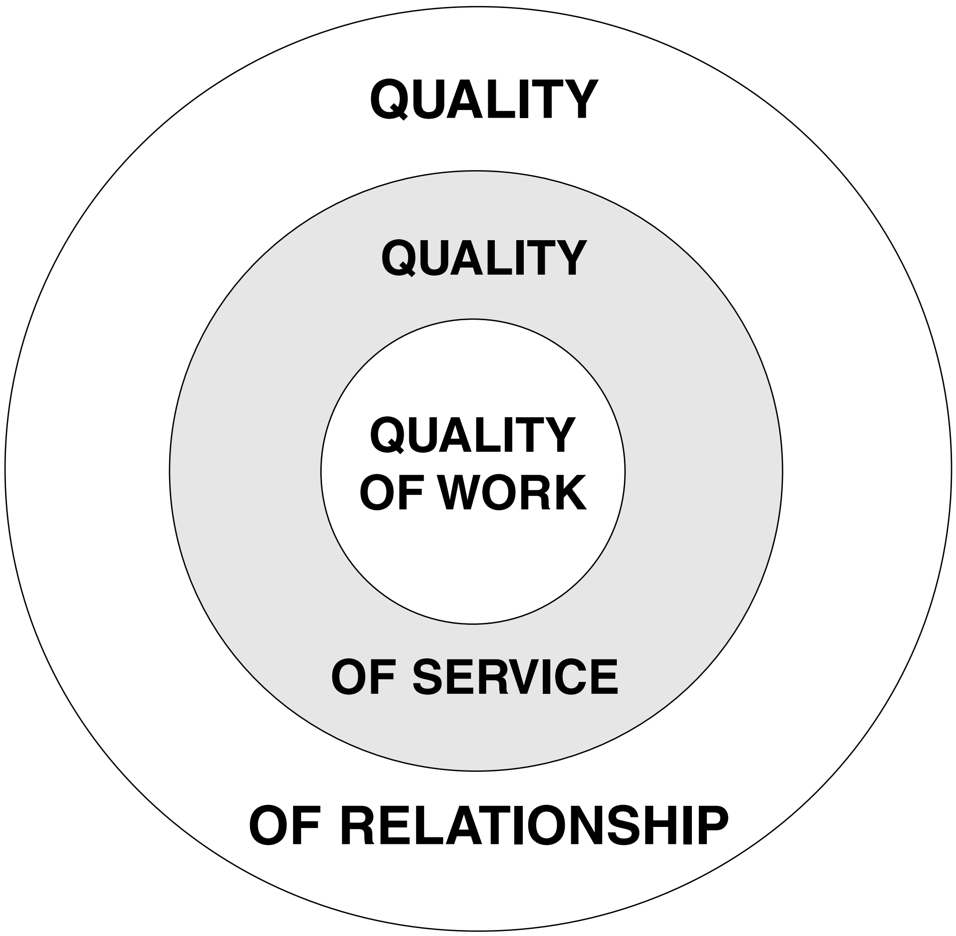


EXHIBIT 2-2:
FOCUS GROUP FINDINGS

Focus Group Findings

An advertising/marketing research firm was recently retained to conduct a series of three focus group discussions with the "decision makers" from small businesses, financial institutions, and hospitals, etc., in markets similar to Clifton Gunderson LLP's.

The key objectives of the focus group discussions were to determine:

A. The key selection criteria respondents apply when choosing CPA firms. Negative images and associations that eliminate CPA firms from consideration.

B. Respondents' current image of Clifton Gunderson LLP, especially in relation to their image of Clifton Gunderson's competitors.

C. The most effective use of promotional materials to ensure that the decision maker will read and evaluate them.

Target Group

The focus groups were comprised of owners/CEOs of small businesses such as car dealerships, restaurants, travel agencies, realty firms, etc.; CEOs and controllers of financial institutions (banks and savings and loans), hospitals, agribusiness firms, and attorneys. The selection of participants was intentionally biased to include only the decision makers from businesses defined as Clifton Gunderson's primary target market. Three sessions were held so that approximately 90% of all first order opinions and suggestions would surface in the discussions.

Part I—How Clients Choose a CPA Firm

Observations • Conclusions • Key Findings

One of the key advantages of qualitative research (focus groups, interviews, etc.) over quantitative research (mail and telephone surveys) is the ability to delve and probe for the *reasons why* people hold the opinions they hold, and to determine *how strongly* they hold these opinions. The following observations, conclusions, and key findings should be reviewed with the understanding that they represent the opinions of a limited number of respondents. The findings, when correlated with previous quantitative research, serve primarily as directionals (i.e., point toward trends and opportunities that reflect attitudes and opinions of people very similar to the client base and key prospects of Clifton Gunderson LLP).

Key Selection Criteria

Participants of all three focus groups indicated that selection of a CPA firm was almost always guided by the *specific service* they required. They categorized the services provided by CPA firms into the following service areas:

1. Audit
2. Tax
3. Business Consulting

The key selection criteria mentioned most frequently, by service area, were:

- **Audit.** Conservative; efficient; intelligent; reputable; established; solid; professional; organized and experienced in the specific industry.
- **Tax Accounting/Consulting.** Innovative; creative; reputable; up-to-date; decisive; aggressive; experienced in the specific industry.
- **Business Consulting.** Creative; intelligent; resourceful; industrious; knowledgeable; experienced in the specific industry.

The respondents indicated that their choice of a CPA firm is situational and that when they use the same company to provide all three services, they expect *different people* to do the separate functions. They realize that not everyone can be an expert in everything. And since they look for completely different characteristics in the people who provide different types of services, they also realize that no *one person* can possess all the desired qualities. The common thread that was considered a *key* criterion for each of the three services was *relevant experience*. The most important influencing factor regarding the participants' final decision to hire a CPA firm was the credentials of the *person* who would perform the work. The most important credential the person could possess was *industry-related experience*.

Participants agreed almost unanimously that small companies in smaller cities want to *know the person* they deal with from a CPA firm. They feel that regional firms like Clifton Gunderson and McGladrey had more real competition for small business clients from the small local accounting firms than from the small business departments of the Big Firms.

The participants pointed out certain things that they consider valued service.

- **Make them feel like they're important—**showing an interest in what their business is all about—their business cycle, cash flow problems, how they stand in relation to others in their industry. Don't just talk with the financial people. Also talk with general managers, sales reps, etc., to get a feel of how they do business.
- **Timely service, responsiveness, communication—**paying attention to the client. Answer phone calls, deliver their report a couple of days early. Talk to them once in a while without the clock ticking. Let them know about something going on that could affect them.
- **Consistent coordination of service—**making sure that new people are fully aware of the clients' business before they get out in the field so the client doesn't have to explain it over and over again. Minimize turnover.
- **Initiative and creativity in providing services—**coming up with specifics and offering ideas. Don't just give them what they want. Give them more.
- **Staff who are sensitive to clients' needs—**knowing how to make working together a pleasant experience. Typically our staff people are the most visible

representatives of our firm. They're the ones who are out there in the field everyday. They're the ones who have the day-to-day contacts with our clients and their staff.

- **Individuals**
  - ✓ One-on-one relationship
  - ✓ Credentials

> CPA firms sell the same *types* of services.
> *The key difference is quality of service.*
> *The key difference in quality is the people.*

Participants also said they consider third-party recommendations to be important, especially when they are familiar with the referral source. Almost all the prospects also indicated a desire to see a client list whenever possible.

Respondents were asked to indicate their associations with a list of adjectives as they related to CPA *firms*.

The majority of participants considered the following adjectives to be very positive:

a. Established
b. Reputable
c. Solid
d. Professional
e. Organized

The majority of participants considered the following adjectives to be negative:

a. Unproven
b. Extravagant
c. Cheap
d. Flamboyant
e. Disorganized

People Do What They Are Rewarded For

Chapter 3

I have worked with more than 100 CPA firms and associations in the past 10 years. One common activity is to facilitate the firm retreat. The retreat is usually owners only, but sometimes includes managers and other key employees. In some cases, all staff are included for part of the retreat. The agendas for these retreats are developed by the firm with input from the facilitator. One approach I have found particularly useful is to solicit, by fax or in a telephone interview prior to the retreat, from all participants the answer to the question: “What do you feel is the most important issue facing the firm?” A variation on this question is: “If you were the King (or Queen) what would be the things you would change?”

In many firms, the answers to these questions relate to the system of owner evaluation and profit sharing. It would be easy to discount this by thinking no one is ever happy with his or her profit share, or everyone has an inflated sense of value as to his or her personal contribution to the success of the organization. Whereas these statements are often true, one of the principles about the business of public accounting is that people (staff and owners) do what they are rewarded for when it comes to effort and how they spend their time. Accordingly, it is critical that everyone understands what is expected and what kind of effort and accomplishment results in rewards. This applies to staff as well as owners. For staff the issue is not just about compensation; it is also about advancement in the firm. For younger staff this generally consists of a goal of chargeable hours. Staff should know exactly what is expected of them. This is why most assignments include a budget.

Most firms have a formal method of staff evaluation. At Clifton Gunderson LLP, we realize the members of our professional staff have a strong desire to “know where they stand” in the firm. Naturally, they seek to receive recognition for outstanding accomplishment. But more importantly, they want to obtain counsel which will accelerate their performance and advancement. The AICPA’s Management of an Accounting Practice (MAP) Handbook is an excellent source of material if you want help in developing or improving your present staff evaluation system. The focus of this chapter is on owner evaluation and reward systems.

The key responsibility of the firm leader—managing partner (MP), chief executive officer (CEO), and so on—is the “care and feeding of the partner group.” This is true whether you are the MP of a 5-partner local firm or the office MP of a 50-partner office of a large international firm. “Care and feeding” can be defined as:

- Listening to their concerns and helping them resolve those concerns.
- Helping them become successful and achieve their personal goals.
- Seeing that they are fairly evaluated and compensated.

Let's concentrate on the third "bullet"—seeing they are fairly evaluated and compensated.

Traditional Compensation Methods

The simplest method of owner compensation is the equal split. At the end of the year the profits are just split equally. This system usually results in all partners being unhappy. The next step is the "slip of paper" method. It also is a simple system. For example, if a four-partner firm earns $500,000, the four partners each independently decide how the $500,000 should be split, and the numbers are averaged and the process is done. A variance of this system is to have fixed "salaries," which may be equal or unequal, and the remaining profit after salaries is allocated by the "slip of paper" method. In some firms the split (total or after salaries) is the responsibility of the managing partner or a compensation committee. The compensation committee usually consists of the managing partner and one or more other partners, who typically rotate for a period of one or more years.

Pitfalls of Traditional Compensation Methods

A key aspect of an owner evaluation system is that, in addition to determining compensation, it causes certain behavior. Make sure the behavior it causes is what is in the best *long-term* interest of the firm. Here is an example: I know of a firm whose primary method of partner compensation is to pay each partner $50 for each recorded chargeable hour. The good news is that the partners had an incredible number of personal chargeable hours. The bad news is that realization was terrible. No one developed staff, and formal marketing efforts were minimal. The net result was slow growth, lack of development of new services and products, and a poorly developed staff.

Some firms put a strong emphasis on the amount of business (billings) that a partner controls. This makes some sense from the point of view that client billings (and collections) are the firm's only source of revenue. Attracting new business and keeping clients is a key part of an owner's responsibility. The problem comes when it is the main or only thing rewarded. This leads to the concept of "my client" and is a negative in building a firm. I have seen firms that are basically a group of sole proprietors sharing office space. One firm even went so far as to allocate general expenses on a formula basis so each partner had his or her own "net earnings." This became the profit share of the partner.

Another problem with the "book-of-business" method of partner compensation is the natural inclination to hoard clients. Tax partners try to do audits while audit partners try to do estate planning in order to protect "my client" from others. You must understand this is normal behavior. "My client base" is a security blanket: "If anything happens to the firm, at least I'll have my clients." A book-of-business compensation system is inefficient and a detriment to firm growth. A firm that has a firm focus rather than an individual partner focus will almost always be more successful in the long run. The life span of a book-of-business firm is usually one generation. Partners hold onto "their clients" way past the time when they should be transferred. When there is a change of generations at the client's organization, don't assume "junior" wants dad's old CPA. Make sure you match these generational changes or you may lose the client.

You want your clients to see the firm as the provider of accounting, tax, and other services—not a single partner. In that way, the firm stands to retain the client after the death or retirement of the individual partner. After all, retention of the client will provide the profits to help pay the benefits for the partner who dies or retires.

A Goal-Based System

All partners are not created equal. Partners have different skills as well as different personal goals. Accordingly, all partners should not be expected to do the same thing and partners should not be measured or compensated based on a single set of criteria. It is the very difference in the individual partner skills that makes the firm successful as a unit. At a MAP conference many years ago, I heard this explained very well. The speaker, whose hobby was hunting, said every firm needs "baggers" and "skinners." Someone must have "bagging skills"—that is, bringing in new clients and new business. Someone else must have "skinning skills"—that is, taking care of the clients once they are in the door. Recognize that if you want your firm to be financially successful, you cannot make "cookie cutter" partner goals. Figure out what your skills are, and do more of what you are best at doing. The same is true for all owners in your firm.

At Clifton Gunderson LLP, we have an individual goal-based system of partner evaluation and compensation. The evaluation process is subjective. Here is how the system works. Each office or client service center (a grouping of several office locations into a single accounting unit) each year develops an annual business plan (ABP). The ABP ties into the office strategic plan, which is a five-year cycle tied to the same five-year cycle firm strategic plan. Remember, in Chapter 1 I talked about the need for accountability. The entire system starts with the individual partner goals. Note the entire process has individual partner goals as its foundation.

The individual partner goals are developed at the local office or client service center, and become the measurement criteria for partner evaluation and compensation. Exhibit 3-1, "Sample Partner Goal Setting Memo—One," and Exhibit 3-2, "Sample Partner Goal Setting Memo—Two," outline typical sets of goals for two different partners.

First, a few words of explanation. The reference to "billing ratio" means realization. We use a cost base accounting system. A billing ratio of 1.80 means 90 percent realization at standard billing rates. Months carried has to do with uncollected fees. Months carried of 3.00 would mean the accounts receivable plus unbilled work in process would be equal to the past three months of production. Some firms use "days in inventory" which basically means the same as months carried.

Notice that in some cases the goals are the same, while in other cases they are dramatically different. Why would two partners in the same office have dramatically different goals? The answer, of course, is because they have much different skills. James Baldwin is a "bagger"—a partner with excellent client development skills. Mitchell Anderson is a "skinner"—an excellent "worker bee" partner with limited client development skills. Notice that Anderson has a significantly higher chargeable hour budget, and Baldwin has a new business goal that is five times higher than the new business goal for Anderson. The point is that these individual goals not only reflect the individual skills of each partner, but both partners are comfortable with their personal responsibilities in the overall office and firm plan. If these goals were reversed, both partners would fail.

Decide what you do best and do more of it. Don't use a cookie cutter to develop partner goals. Public accounting is a team sport. Each partner must have a role that helps the team, office, and firm win. Notice that at the top of each goal memo is the phrase "that we agreed to in our conference of…" These goals are established at the local level based on the needs of the local office or client service center. Some goals are very objective and easily measurable, while others are more general. The important thing is that every partner in the firm knows exactly what is expected of him or her at the beginning of each fiscal year. They also know that they will be held accountable for achieving these goals, and that their compensation, to a large extent, will be based on how well they did in accomplishing their goals for the year.

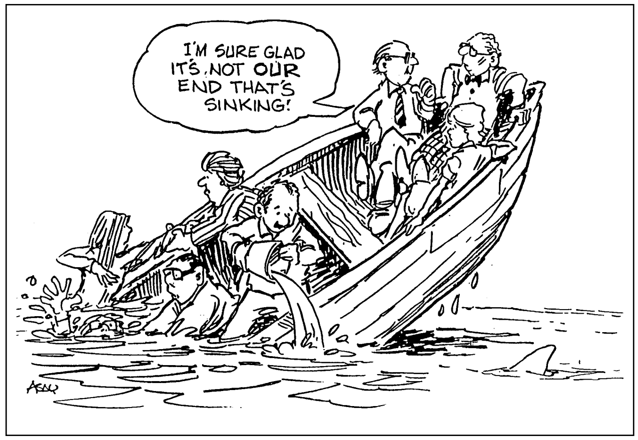
Firm-Based System Versus Location-Based System

I mentioned earlier that our evaluation and compensation system is an individual subjective system. Some firms prefer an office- or location-based system. In other words "you eat what you kill." A typical office-based system rewards the partners in a particular office based on the net earnings of their particular office. In most cases, this is the net earnings of the office after an allocation of firmwide overhead or shared expenses. I call this the "franchise system." The problem with the franchise system is that its focus is on the local office. We feel the focus should be on the firm. After all, a rising tide lifts all boats. Our partners are owners in Clifton Gunderson LLP. They are not owners of their local operating office. We call this the *one firm concept*, and it is our basic philosophy of practice. The one firm concept is simple. Always do what is in the best long-term interest of the firm, even if it may have a short-term negative effect on local office profitability.

The highest level of performance is when you do something that benefits the entire firm. We have had many cases where individual partners have developed new products or services that can be used throughout the firm. We have several specialty areas of practice—both as to industry specialization and nature of service or product. Partners who are able to "export" this specialization to another office are rewarded. This is why we practice the one firm concept. The firm is stronger and more profitable than it would be under a franchise-type partner compensation system.

Subjective System Versus Objective System

As mentioned earlier, our evaluation and compensation is subjective. I know of firms that have highly objective systems, with many layers of calculation to determine "exactly" each partner's contribution to overall firm profitability. Some local firms even go so far as to determine profits by department within a single office. In my opinion, this takes the focus away from the firm and can even create an unhealthy competition similar to the franchise system. The following cartoon illustrates the point I am trying to make.



At the end of each fiscal year every individual Clifton Gunderson LLP partner submits a form to the local office partner-in-charge (PIC) explaining his or her accomplishments for the past year based on the set of goals agreed to and established at the beginning of the year. This form, along with comments by the office PIC, is sent to the administrative office for development of the materials for the Compensation Committee (CC). The CC consists of four individuals. Firm management—the chief executive officer (CEO) and chief operating officer (COO)—is always part of the CC. These two individuals are full-time management for the firm, and are in the best position to understand partner performance throughout the firm. The other two members of the CC are Partnership Board members elected by our seven-person Partnership Board. These four individuals then subjectively decide the compensation of all partners in the firm. This is not an easy task. The CC then makes its recommendation for final compensation for all partners to the Partnership Board. The Partnership Board has final authority under the Partnership Agreement. Few, if any, changes are made after the CC has completed its work. One other task for the Partnership Board is to set the compensation for firm management. Firm management also has a set of specific partner goals established by the Partnership Board. We have a May 31 fiscal year. This entire process is usually completed by the middle of July. Then it's back to work and the entire process starts again.

Full Disclosure Versus Nondisclosure

Our partner compensation system is fully disclosed. All partners receive the final printout listing the compensation of all partners. This, of course, leads to the inevitable comparisons and some typical partner whining. That is just something we have learned to live with, and it is really not that much of a problem. There are also a few partners who would complain if we gave them the keys to Fort Knox. The fact is that the system is fair and it works. We have never lost a partner that we cared about losing because of the system of partner evaluation and compensation. It also helps that average partner earnings, for the most part, have increased every year for more than 25 years. I believe this is due, in part, because partners know what is expected through our system of a goal-based evaluation and compensation program.

Unit-Based System Versus Non-Unit-Based System

Some firms have difficulty financially motivating older "content" partners. I call this problem "middle age skaters." They reach their 50s and have a level of income that is more than satisfactory. Some of them feel they have reached their personal income goals, and now just want to sit back and take life easy. As one Wisconsin partner put it, "How many brats can you eat?" This kind of attitude is detrimental to the continued financial success of the firm. If significant, it can cause serious partner conflict, even leading to the breakup of the firm.

The problem is most serious when firms have a partner compensation system that does not allow for individual partner compensation to be automatically reduced. Some firms have this problem. They have a partner compensation based strongly on past performance and past earnings. A common method features "units," sometimes called "IPU's" (income-producing units). Once units are earned they become permanent. Sometimes these units have a fixed value (so many dollars per unit) and sometimes they have a value set at the beginning of the year. The theory is that after the firm earnings have "funded" the existing units, the remaining firm earnings are available for issuing additional units, bonuses, or some other form of compensation. This works fine until the firm experiences a flat year—and all firms have this happen sooner or later. When this happens, the older partners who have lots of units generally feel little impact from the flat year. Younger partners, however, are interested in moving up the food chain and are really disappointed, if not plain angry, when there aren't any earnings left after funding of existing units. This can lead to serious conflict.

Make sure your system of partner compensation does not fall into this trap. Make sure allocations for past service or longevity do not eat up all the firm profits. There must always be motivation for all partners to perform at their highest possible level. There must, each year, be a significant amount of uncommitted income for distribution to partners at the end of the year. This financial motivation will drive partners to achieve their agreed-to goals.

At Clifton Gunderson LLP we handle this issue by having only 75 percent of a partner's profit share in units. For example, if a partner profit share is $200,000, he or she would have 1,500 units with value of $100 per unit. Therefore, $150,000 of the profit share would be in unit form. The other $50,000 would be a nonrecurring allocation that is not part of the base for the next year. This means the partner with a profit share of $200,000 would only have a base (units) of $150,000 guaranteed at the beginning of the fiscal year. The partner would have to re-earn the $50,000 in the new fiscal year just to get back to $200,000. This is a strong incentive to partners to maintain or increase their performance levels.

Some would argue to not have any units or base. Put it all back in the "pot" and start from zero each year. This would not be fair to long-term performing partners. Partners deserve a "floor" based on past performance. Everyone can have a down year once in a career. A potential cut of 25 percent of your income is penalty enough. A total collapse of partner performance for an extended time is another matter. This issue will be covered in Chapter 7, "The One Firm Concept—Take Care of Each Other."

At Clifton Gunderson LLP units also serve other purposes. They are used to vote in Partnership Board elections, amendments to the Partnership Agreement, and other issues requiring partner approval. They also are the basis for capital requirements.

With 25 percent of our income put back in the "pot" each year, plus all earnings in excess of the prior year earnings, there is a significant amount of undistributed money available to "fund" the partner evaluation process each year. This system is fair and certainly a major factor driving the success of our firm. After all, people really do what they are rewarded for!

A Final Thought

As a result of working with so many firms over the past 10 years, I have seen dozens and dozens of partner compensation systems. Some are highly complex, with many layers of evaluation and rewards. Still others are simplistic to the point where the only real goal is to be alive at the end of the year. I have only found one perfect compensation system. It is called a sole proprietorship.

EXHIBIT 3-1
SAMPLE PARTNER GOAL SETTING MEMO—ONE

PARTNER GOAL SETTING MEMO

Badgertown, Wisconsin Office
Fiscal year ending May 31, 20X2

TO: James Baldwin
FROM: Partner-in-charge (PIC)
RE: Goals for 20X1-X2
DATE: July 1, 20X1

The following is a summary of your goals for the year ended May 31, 20X2, that we agreed to in our conference of June 26, 20X1:

1. Absolute compliance with all firm and professional quality control standards.
2. Cooperate fully with the PIC and the local office management team in the implementation of the office's Strategic Plan and the Annual Business Plan.
3. Achieve your charge hour budget of 1,000 hours.
4. Bring in net new business of $100,000 from existing and new clients.
5. Bill 90% of your prior month's WIP each month.
6. Strive to achieve an overall billing ratio of 1.80 or better on the clients you serve.
7. Keep your number of months carried under 2.70 throughout the year.
8. Develop a detailed marketing plan for our Litigation Support Services, which generates, at a minimum, $80,000 in new net fees, for approval by the Badgertown Management Team.
9. Be an active participant on the Litigation Support Group, and leverage the insights gained from being on the Group to the Badgertown Office.
10. Sell four estate plans this year, with an average fee of $5,000.
11. Develop a recruiting/hiring plan for our office to obtain a qualified and experienced CPA/attorney to assist in our litigation support and estate planning areas.

PIC Signature	Date	Partner Signature	Date

EXHIBIT 3-2
SAMPLE PARTNER GOAL SETTING MEMO—TWO

PARTNER GOAL SETTING MEMO

Badgertown, Wisconsin Office
Fiscal Year Ending May 31, 20X2

TO: Mitchell Anderson
FROM: Partner-in-charge (PIC)
RE: Goals for 20X1-X2
DATE: July 1, 20X1

The following is a summary of your goals for the year ended May 31, 20X2, that we agreed to in our conference of June 26, 20X1:

1. Absolute compliance with all firm and professional quality control standards.
2. Cooperate fully with the PIC and the local office management team in the implementation of the office's Strategic Plan and the Annual Business Plan.
3. Achieve your charge hour budget of 1,600 hours.
4. Bring in net new business of $20,000 from existing and new clients.
5. Bill 95% of your prior month's WIP each month.
6. Strive to achieve an overall billing ratio of 1.78 or better on the clients you serve.
7. Keep your number of months carried under 3.00 throughout the year.
8. Improve our office scheduling system, and plan staff bank time to reduce excess payroll costs.
9. Effectively implement and monitor our plan to reduce excess support staff costs.
10. Sell, at a minimum, two fraud services and two personnel handbooks to our existing client base.

PIC Signature Date Partner Signature Date

We Are in the Business of Helping Our Clients Be Successful

Chapter 4

William Shakespeare, in his play *As You Like It*, said, "All the world's a stage…and one man in his time plays many parts." This is also true for today's CPA. As CPAs, we play many parts or roles. As I mentioned in Chapter 1, one of two major forces at work in today's environment is the transition from an accounting profession to a financial services industry. As I write this, today's issue of the *Chicago Tribune* has two front-page stories about the accounting *industry*. Yes, the term they used was *industry*, not profession. There is an old song that contains the words "something's lost when something's gained." This can happen to us in public accounting if we are not careful during this transition period. All of us must be careful to remember our responsibilities as professionals, as well as our efforts to help our clients reach their personal and business goals. Yes, we are in the business of helping our clients be successful. However, we are also professionals and are responsible for professional conduct in all that we do. At Clifton Gunderson LLP this is clearly stated in our Firm Philosophy, written by founding partner Neil E. Clifton more than 40 years ago. The Firm Philosophy is as follows:

> **Firm Philosoply**
>
> We will serve our clients and the public at large with absolute integrity and objectivity and with the highest degree of professional competence. We will serve our clients in confidence and with a professional sense of duty. We do not flatter ourselves to think that we can be all things to all people, but in those areas in which we choose to serve, we will strive to make the highest level of professional service available to our clients.
>
> Should the interests of our clients run counter to the best interests of the public, the interests of the public must come first.
>
> We expect each partner and employee to continually strive for self-improvement and work for the continual improvement of the ability and efficiency of the firm.
>
> It is our belief that each partner and employee must obtain from this profession both a profitable return for time, money, and self, and the happiness and self-satisfaction which come from creativeness and competence.

Pay particular attention to the words of paragraph two, "Should the interests of our clients run counter to the best interests of the public, the interests of the public must come first." It is not by accident that this policy is the first policy in our Personnel Information Manual. It is the foundation of the firm, and is, in part, a key factor in the success we have enjoyed. It is every bit as true today as it was in 1960, when Neil Clifton wrote it. All firms need a solid foundation to build on. Make sure your firm has one and then make sure it is followed. Remember the sample partner goals in Chapter 3? The first and most important goal for all partners was goal number 1, "Absolute compliance with all firm and professional quality control standards." Knowingly violating this goal is a ticket for dismissal from the firm.

This does not mean you cannot be an advocate for your client. It does mean that you must always remember your professional responsibilities. In order to help your client be successful, what do you need to know? You need to understand:

- Your client
- Your client's business
- Your client's personal and business goals

Know Your Client

Understanding your client is the first step. This can only be accomplished by developing a close personal relationship and gaining the confidence of the client. This includes respecting the confidential nature of the client's business, personal plans, and finances. I learned this very early in my career at Clifton Gunderson LLP. When I was 26 years old, I was made the manager in charge of a small office in central Illinois. In those days, they were called "branch offices" so as not to be confused with the "mother ship," where all the founding partners resided. It was a small town of about 25,000 people where everyone knew everyone else, and it was essential to maintain absolute confidence of client information.

You probably have heard the phrase "CPA means close personal attention." This is a very basic and important truth. Clients don't care what you know until they know you care. Care about them, their issues, their worries, and their concerns. How can you find out what keeps your client awake at night? Simply ask them. They already know the answer because the problem, concern, or worry kept them awake last night. If you don't know or don't care what keeps them awake at night, it is only a question of time before they find someone who does care. Then you will lose your client.

Public accounting is a simple business in many ways. As your client's most trusted adviser, it is just a matter of helping your client achieve his or her personal and business goals. First, however, you must understand your client. This is about developing a relationship. It is about listening. In order to communicate, one person has to listen. There is no communication when both people are talking. Listening is a skill that must be taught, just like speaking.

Know Your Client's Business

Once you understand your client, the next step is understanding your client's business. This takes a lot of time and a lot of effort. Make sure your partners and senior level staff know how important it is to understand your client's business. By "understand" I don't mean how to apply generally accepted accounting principles. I mean the key elements and key factors that affect your client's business. Learn to think from the client's point of view. Some of this is simple. High mortgage interest rates will clearly have a negative impact on your home construction clients. Some are more subtle.

For example, back to my early experience in the small central Illinois city, one year we had an unusually wet and late spring, leaving the fields too wet for planting at the normal time. What did this mean for our clients? It meant that the price of bacon was going to increase, as well as all other pork products. It also meant that within a year, the small farm manufacturing client that built farrowing crates was going to have a banner year. All because the fields were wet from a slow spring? Yes, and you need to understand these things about your client's business if you are in the business of helping your client be successful. Here is why the above is true.

- Corn must be planted and be up by early- to mid-May in north central Illinois in order to have the time to reach full maturity before harvest.
- Wet fields make it impossible for the farmer to plant the corn due to the weight of the heavy farm machinery.
- Late planting will more than likely cause low yield, thus driving up the price of corn.
- Field corn is the primary food for hogs.
- Many farmers faced with this wet field situation will simply switch to soybeans, since soybeans mature in less time, thus further driving up the cost of corn.
- Grain elevator clients can expect higher gas costs to dry the corn because some of it will have too high a moisture content when it is harvested and delivered to the elevator.
- Soybean prices will fall as the excess harvest of beans will drive prices down.
- And, finally, farrowing crates will be in great demand as farmers decide to raise more pigs because of the high prices for pork.

For the readers in New York City, this example probably doesn't apply. The point is that in order to help your client be successful, you must understand the client's business and think from the client's point of view. This requires a true understanding of the client's business, and the factors that affect that business. You won't learn this in college, but it is a key factor in your firm's success. Make sure everyone in your firm understands this basic ingredient of success. When you focus on your client's success, your firm's success will follow.

Know Your Client's Goals

How do you find out your client's personal and business goals? You can't really help your client achieve their business and personal goals until you find out what they are. Finding out these goals is a key activity for successful firms. This is one of the roles of today's CPAs.

In the new millennium, the business world has become more and more complex. Changing demographics, technology, and the flurry of business activities, products, and services have made an already complex business environment almost unmanageable for many of our clients.

Those businesses and organizations that do not change to meet the "rules" of the new business world will not survive. When the world changes and your business or organization does not…you will fail. Past success means nothing when the rules change. Every business or organization needs a clear-cut plan to make it through the minefield of the modern business world. Remember, if you don't know where you are going…you'll end up there. A strategic plan is merely a *map* for the client. It's a map that will help them get where *they* want to go, a map that will prevent them from wasting precious resources—time and money—as they move forward in the new millennium.

Strategic planning is a simple process. Assisting our clients in this process is a rewarding, professional experience of great value to the client. You do not need a Harvard Ph.D. to provide this service. You do, however, need a complete understanding of the client, the client's business or industry, and the client's goals. The rest is relatively easy. Basically, we are asking the client, "What do you want to be when you grow up?" Once we get that answer, we can assist the client in developing a simple strategic plan to achieve their goals. This will include an "action plan." Strategic planning without an action plan is a waste of time. I have a great deal of experience in assisting our clients in the strategic planning process. I have worked with banks, construction companies, coops, credit unions, and so on. In every case, I have found the clients cooperative and greatly appreciative of our assistance. This is an important service and is much needed by our clients.

Strategic planning is a classic example of a service that focuses on the client's goals. It is an example of being in the business of helping our clients be successful. To find out your client's personal and business goals, all you have to do is to ask them what are their major long-term concerns about their business and what are their personal goals, financial and otherwise. In many cases the client will explain the many changes in their industry and how they need to have a plan. This is your opportunity to explain your strategic planning service. Notice this service focuses on their needs, their problems, and their future. This is a high-end valuable service. Price it accordingly.

Exhibit 4-1, "Sample Agenda for Directors' Retreat," is a sample agenda for the strategic planning retreat.

Once you have assisted a client in developing a strategic plan for their business, you have truly become a partner with them. Annual or more frequent follow-up and assistance in helping them carry out their action plan is an additional valuable service you can provide to the client. Exhibit 4-2, "Guidelines for Facilitating a Client's Retreat," provides guidance on offering this service.

Client's Perception of Quality

In Chapter 2, I briefly mentioned the difference between quality in the eyes of most CPAs and quality in the eyes of the client. Most clients are clueless when it comes to quality from a technical or professional standards point of view. They neither understand nor care about the details of tax law or the many disclosure requirements for their audited financial statements. That is what they hired you to do. They, the clients, are properly focused on their own business. Many do not even understand accrual accounting. You need to understand this and learn to think and communicate from the client's point of view. It is a waste of time to attempt to educate a client about the affect of the alternative minimum tax that produced an additional $200 in tax on the corporate return. All the client really wants to know is if they owe additional tax and how much. This is particularly true in tax preparation.

One of the great myths of the last 10 years has been that clients will no longer require our services because of the advances in technology that allow clients to buy inexpensive software to do their own tax returns or monthly financial statements. Some of the "techies" in our firm predicted a significant decline in tax preparation and monthly compilation services for the firm. They were dead wrong. Both these areas of practice continue to grow at Clifton Gunderson LLP and are very profitable for the firm. These "techies" didn't understand that the clients can be more successful by focusing on their business and leaving the tax and bookkeeping to us. Remember, decide what you do best and do more of it…leave the rest to others. This is true for clients as well as CPA firms.

We are not in the business of selling tax returns, we are in the business of selling "peace of mind." If we were in the business of selling tax return preparation services, we would not be able to compete with low-end providers. When people regard a tax return as a commodity, they buy the cheapest one they can find. When people are purchasing "peace of mind" price is way down the list of factors in the decision process. This is one of the lessons we learn in what I call "Real Life 101." This is why people don't like to change doctors, dentists, barbers, CPAs, or any other service provider. They trust you and have a relationship with you. They understand that you are a key partner in helping them reach their personal and business goals. If you are presently serving clients whose sole focus is on price, get rid of them.

One of my "Real Life 101" experiences happened a number of years ago when I broke a tooth attempting to eat the remaining unpopped kernels in a box of popcorn. It was an expensive lesson. I would have been way ahead to just buy a new box of popcorn. The next morning, I called my dentist to explain what happened. As I reflect on the experience I realize his excellent marketing skills. His first question to me was, "Are you in pain?" I told him no, there was no pain at all. He responded by saying, "If you start to have serious pain, let me know so I can order some pain relief medicine." Being a dental coward, I don't look forward to visits to the dentist. However, the mention of potential "serious pain" caused me to immediately make an appointment. The only way to fix the tooth was to have it crowned. The process is simple. The dentist smoothes the tooth down and makes a mold of the stub that is left. He then puts on a silver-like temporary crown until the new crown is made by something called a "dental arts lab." When the crown is done, you return to the dentist who pops off the temporary crown and puts on the new crown. The final act is to ask the dental assistant to come in and admire the new crown…this also is a marketing activity.

Okay, here is the point. In the entire story of the broken tooth saga, I never once mentioned how much the crown cost. I didn't even ask my dentist. It didn't matter what the cost was once he used the phrase "serious pain." I also didn't ask for a quote so I could get comparable bids from other dentists. You see, I trusted him and had a relationship. I wasn't buying a crown—I was buying peace of mind. Our clients feel the same way. They trust us and want us to fix their problems and concerns before they result in "serious pain." Remember the circles of quality discussed in Chapter 2. The quality of the relationship is what matters most to the client. They don't really understand the "CPA stuff." They will leave that to you. What they want from you is help in achieving their goals.

Nontraditional Services

I have repeatedly said we are in the business of helping our clients become successful in reaching their business and personal goals. I also mentioned in Chapter 1 that we are in a transition from an accounting profession to a financial services industry. Some CPAs and some firms are not comfortable with this transition. Others have merely stuck their collective heads in the sand in hopes that this transition will go away. You should remember what is most exposed when you stick your head in the sand.

If we really are focused on helping our clients reach their business and personal goals we need to recognize that we either must offer more nontraditional services such as investment advice, money management, insurance products, and so on, or be ready to oversee the delivery of these services by other professionals. This change is caused by client demand. As the most trusted adviser to most of our clients we are increasingly asked to take a larger role in all of their financial needs. This is a natural extension from the personal financial planning services that many firms have offered for many years. It is also a natural extension of the "close personal attention" that our clients have grown to expect from their CPAs. Think of it as a financial services supermarket. Most of us are familiar with the supermarkets or superstores of today. They provide one-stop shopping. This is efficient and timesaving for today's "short on time" consumers. This is a paradigm shift. Many years ago the consumer had to make multiple trips. This might include stops at the grocery store, the post office for stamps, the gas station, the bakery, and the butcher shop. Now you make one stop to consolidate all the above stops and you can pick up some cash at the ATM while you are at it. Clients want the same efficiency as they move through the financial aspects of their lives. Remember what I said about paradigms: when a paradigm shifts and you don't…you will lose. This is not an alarm call for all firms to immediately shift resources, time, and money to become full financial services firms. It is, however, a calm wake-up call to make sure you understand this is happening and that your firm is in a position to meet the new client expectations.

Many firms have been providing money management and investment services for many years. This often was done through affiliated companies or some other vehicle that was used to make sure they were not in conflict with state statutes dealing with licensing of CPAs and their firms. Because this transition is client demand driven, some states have not yet updated their regulatory requirements to the realities of today's practice. Accordingly, make sure you understand the rules and the law in your particular state. Your State Society or State Board can help you with these issues.

Most of our new business for current clients is what is commonly known as type II services. Type II services are services that clients both want and need. This is contrasted to type I services that clients need, but don't necessarily want. Exhibit 4-3, "Sample Chart of Type I Services and Type II Services," distinguishes between these two types of services.

If you do not accept the premise that you are in the business of helping your clients be successful in reaching their business and personal goals, be prepared to eventually lose your clients. Clients want this help and your competitors are offering this help.

A Final Thought

The "new idea of the year" has become the "new idea of the day." Everything is changing, and it is changing faster than ever. We see it in our firm as we move from an accounting firm to the much more complex industry of "financial services." In the last decade alone, we have significantly changed the nature of services we provide to our clients. While auditing, tax, and accounting remain the core services of Clifton Gunderson, much of our growth has come from new services and products. In almost every case, this has been caused by client demand for help from us. We are no longer in the "accounting business." We are in the business of helping our clients become successful. This is a different ball game and ties perfectly with our "clients first" attitude.

EXHIBIT 4-1
SAMPLE AGENDA FOR DIRECTORS' RETREAT

DOOR COUNTY, WISCONSIN
WIDGET ASSOCIATION OF AMERICA

DIRECTORS' RETREAT

JUNE 4-5, 20X1

AGENDA

Tuesday, June 4, 20X1

1:00 p.m.–2:00 p.m.	Review of past year's results and annual report of Director Blazer
2:00 p.m.–3:00 p.m.	Discussion and resolution of Board of Directors' issues of concern
3:00 p.m.–3:30 p.m.	Approval of 20X1-20X2 business plan and budget
3:30 p.m.–3:45 p.m.	Break
3:45 p.m.–5:00 p.m.	Development of a strategic plan for the future

Note: Each Director should be prepared to write on one sheet of flip chart paper a description of the Association as of June 1, 20X3.

6:00 p.m.–	Group dinner

Wednesday, June 5, 20X1

8:00 a.m.–9:00 a.m.	Development of a group consensus of the focus statement
9:00 a.m.–10:00 a.m.	Development of an action plan to implement the new focus statement
10:00 a.m.–10:15 a.m.	Break
10:15 a.m.–11:15 a.m.	Action plan (continued)
11:15 a.m.–12:00 p.m.	Review of focus statement and action plan for final approval

EXHIBIT 4-2
GUIDELINES FOR FACILITATING A CLIENT'S RETREAT

Outlined below are a few guidelines for facilitating a client's retreat. These guidelines cover marketing, timing, participant preparation, setting the tone of the meeting, and major steps in the process.

Marketing

The marketing approach to providing this service is very simple. The client is very aware of the dramatically changing business environment. They are also aware of the pressures and competition for customers and employees, and the changing culture of their own business and industry. They are bombarded daily with information and change from every source—just as we are. They are fully aware that the "old way" won't necessarily work in the "new world." They want help.

One approach is to ask the client directly:

- Where do you want your business to be in five years?
- How do you expect to get there?
- What is your plan?
- How are you going to achieve your goals?

Every client has these questions and concerns. Once they realize we care enough about them and the business or organization to be concerned about *their* business and *their* future, they will start to recognize we are their *partners*—not just their accounting firm.

Yet another approach is to let the client know we provide strategic planning services to our clients and that these services are increasingly in demand as businesses and organizations cope with the changing business environment. The term "strategic planning" can be frightening to some of our clients. They may feel it is something only large organizations must do. Assure them that all businesses need a "map" and keep the language simple and plain. Point out that it is an investment—not a cost. The savings in time and money by having a clear-cut plan for the future, *understood by everyone in the organization*, will save a great deal of time and money spent on false starts.

Timing

My experience is that it is better to do it in two half days. However, it is okay to do it in one full day. Remember, your job is to facilitate and see that the client develops an outline of a strategic plan while at the retreat. It is *their* plan—not yours.

Participant Preparation

See the "note" on the sample agenda in Exhibit 4-1. This is critical. Each participant must come to the retreat prepared to write on *one* sheet of flip chart paper his or her vision of the organization five years in the future. Do *not* be more specific in your instructions. Clients will sometimes want more specific instructions. Resist the desire to give them a fill-in-the-blank form. We want them to think and maybe even struggle a little with the assignment. This is an important pre-retreat activity. In today's "techy" world this is now known as "visioning." Formerly, this process was known as "thinking." Use whichever phrase makes you comfortable.

Setting the Tone of the Meeting

As facilitator, you need to spend 30-45 minutes up front discussing the process and what the group expects to accomplish at the retreat. Always decide what you are going to do before you start doing it. The end product of the retreat will be a group consensus of what they want to be in five years (or whatever time frame you use) and, more importantly, a specific *action* plan to make the plan a reality. Some clients will fall short on the action plan. Strategic planning without implementing a specific action plan is a waste of time. It is your job to see that the action plan receives proper attention.

Sometimes clients are very successful and assume if they just keep doing what they have in the past, all will be well and they will continue to prosper. This is a deadly trap. The fact is the world of business is changing constantly and dramatically. Past success guarantees nothing when the rules change. I like to emphasize this by quoting from *New Work Habits for a Radically Changing World*, by Price Pritchett.

I also like to use a video to make the point about the changing world. The video is *The Business of Paradigms*, by Joel Barker. It runs 38 minutes and can really set the tone for the need for the strategic planning process. Basically, the video and the booklet help participants think about the future—the future of their industry as well as the specific future of their organization.

The process of assisting clients in developing a strategic plan is quite simple. Make sure you know the client's business and industry, including any major industry changes taking place.

Major Steps in the Process

- Set the tone by providing an overview of the strategic planning process.
- Make sure all participants come to the retreat with their "homework" assignment completed.
- Have each participant write on one sheet what they see the organization "being" five years out. *Note*: Do not allow debate or argument at this point. Each person should be allowed to state their case without criticism from others. It is okay if someone asks "what do you mean?" for clarification purposes. It is not okay to disagree. There is time for that later. (When this part of the process is done, it is a good time for a break.)
- Now is the toughest part. Tape all the sheets on the wall and, using the clean flip chart, create a consensus of the group's individual "visions." This can take

several hours or only 30 minutes. As you reach agreement on each key issue, check it off the sheet. *Always* ask for confirmation of the group. (It is their plan—you are just the facilitator.)

- What you will find is that many of the vision comments are actually action steps (things to do to accomplish the vision). Save them for the action plan. Don't clutter up the vision statement with too much detail. At this point, we are concentrating on what we will be…not how we will do it. Remember, we are drafting an outline of the key points of the vision statement. Don't try to draft the final version at the retreat.
- After the break—go over the "final" vision statement for confirmation and clarification.
- Okay, now that we know what we want to be, how do we do it?
- Using a separate flip chart (one page), state what we are *today*. Compare this to the newly created vision statement (the consensus of the group homework vision process). Then answer these questions about how we get from today to the new vision statement:
  — What do we have to do?
  — Who is going to do it?
  — When are they going to do it?
- The answers to the above three questions create the action plan. Make participants be specific on the dates. Remember, strategic planning without action is a waste of time.
- The final step at the retreat is to once again review the new vision and implementing action plan for confirmation and, if necessary, clarification.

Follow-Up

After the retreat, the client will develop the strategic plan for your review and comment. In some cases, the client has asked me to write the plan for their board's final okay.

EXHIBIT 4-3
SAMPLE CHART OF TYPE I SERVICES AND TYPE II SERVICES

Type I Services	*Type II Services*
Clients need them but don't necessarily want them.	Clients both need and want.
Required by a third party who creates the market. Benefit is negative—avoid hassle.	Saleable on merits because they address a real problem or opportunity.
Past-oriented, such as reporting the past or cleaning up problems of the past.	Future-oriented, obtaining future benefits.
Technical quality not important to clients.	Technical quality very important to clients.
Price easily compared to competitors.	Neither price nor service quality easily compared to competitors.
Technical expertise required is routine.	High-level technical expertise required.
Low degree of customization.	Highly customized.
Sell them once and perform them many times.	Each engagement "one of." Each job individually sold.
Sales cost is low.	Sales cost is high.
Billed based on time or a standard fee for the type of service.	Billed based on value to the client.
Often billed below standard rates.	Price not a dominant issue; key issue is perceived benefit to the client.
Can often be scheduled in advance to smooth work flow.	May be emergencies and not be scheduled in advance.

Match the Workforce to the Workload

Chapter 5

The January 2002 issue of *The Practicing CPA* lists the top five Management of an Accounting Practice (MAP) issues based on the input of more than 300 participants at the 2001 MAP Conferences. The number one issue is "finding and retaining quality staff." This was also the number one issue for the years 1996–2000. All indications are that finding and retaining quality staff will continue to be a major concern for firms of all sizes for many years to come.

The entire issue of personnel and how we staff has been through a significant paradigm shift. Peter F. Drucker, in his book *Post-Capitalist Society*, states "as recently as the 1960s, almost one-half of all workers in the industrialized countries were involved in making (or helping to make) things. By the year 2000, however, no developed country will have more than one-sixth or one-eighth of its workforce in the traditional roles of making and moving goods. Already an estimated two-thirds of U.S. employees work in the services sector, and 'knowledge' is becoming our most important 'product.'"

This calls for different organizations, as well as different kinds of workers. Charles Handy, in his book *The Age of Unreason*, states "less than half of the workforce in the industrial world will be holding conventional full-time jobs in organizations by the beginning of the 21st century. Those full-timers or insiders will be the new minority. Every year more and more people will be self-employed. Many will work temporary or part-time—sometimes because that is the way they want it, sometimes because that's all that is available." In other words, the world has changed; and we need to change with it. We are in a period where constant training and retraining are the norm. People change jobs every few years and the shortage of qualified people has created a bidding war for experienced people. This has all come at a time when the percentage of college students selecting accounting as a major is on a decline. This calls for new ideas and new approaches if we are going to have the necessary personnel to meet our client's growing demands for services and products to help them reach their business and personal goals. It requires a new model.

Personnel Plan

Most firms have an annual budget. Some even have a strategic plan. Some have an annual capital expenditures budget. Yet, few, if any, firms have a personnel plan. Seventy percent of the cost of operating a CPA firm is "people cost." (This assumes you count the "cost" of partners as "people cost," a fact that many staff would question!) Do you have any clients that would fail to devote a lot of attention and planning to a cost item that was 70 percent of total organization cost? I am sure the answer to that question would be a resounding "*no*." Yet, many firms have not taken the necessary time to develop and execute an overall personnel plan.

Staffing to meet today's needs and development of future partners is a critical long-term need to insure the long-term success of your firm. You need a specific plan and you need to execute the plan. This is true if your firm is a seven-person sole proprietorship or a multinational giant. Remember our discussion of strategic planning in Chapter 1. No strategic plan will be successful if you are unable to have in place the proper complement of personnel to carry out the plan. In other words, if you have a strategic plan in place that reflects a 50 percent growth rate over a five-year period, you must also have a personnel plan in place to insure you have the people to deliver the services to this higher rate. As is the case with all planning, it is not an event…it is a process. But the process cannot begin without a plan.

You must make good personnel decisions—don't let them make you. Every Clifton Gunderson LLP office and client service center has a written personnel plan that is critical to the success of the local office strategic plan. Exhibit 5-1, "Sample Personnel Plan," is an example of a local office personnel plan. (These plans, of course, must be followed up by a specific action plan with accountability for results and timing.)

Finding Staff

Let's discuss the need to find quality new staff. This is a difficult, but not impossible, task. Remember the lessons of Chapter 2, "Always Fish in the Pond Where the Fish Are." In other words, where have you been successful in the past? Discussions of several recruiting techniques follow.

Recruiting at Colleges

In the mid-1980s, we became increasingly frustrated by our lack of success in recruiting entry-level staff at the major universities in our trade area. We were offering competitive salaries and we were a growing, profitable firm with challenging work assignments and lots of opportunity for rapid advancement. Yet we were hiring few new entry-level employees. We were simply not catching enough fish in the ponds where we were fishing. We decided to find out why by hiring a market research firm to help us clear up the mystery and help us in our approach. Exhibit 5-2, "Recruiting Report Results," outlines the report given to us in 1989.

This is a classic example of fishing in the wrong pond. Keep in mind that we were not trying to lure these new employees to some remote rural location. At the time of the market research we had offices located in Madison (University of Wisconsin), Iowa City (University of Iowa), and Champaign-Urbana (University of Illinois). Furthermore, as we looked at the answers students were giving us, we even wondered if we wanted to catch some of these fish. For example, one of the questions used by the market research firm was “How long do you expect you will be employed by the firm you choose?” The collective answer was that few graduates expected to spend more than a few years at their first job. Most felt “it would be nice to stay at the firm for a long time, but it’s unrealistic.” One Champaign student summarized his expectations by saying, “I’ll work like a dog for 12 years, make partner, then play golf.”

This was a real wake-up call for us. Whereas we continue to recruit at major universities with some success, we shifted our emphasis to hiring the best students at smaller schools, such as UW-Whitewater, UW-Oshkosh, Illinois State University, Drake University, Bradley University, and others. We also developed and “honed” a better profile of the students who would have the best chance of a lifetime career at Clifton Gunderson LLP. We looked carefully at the many advantages we offered as a multi-state regional firm. We appealed to students by the nature of the work—direct contact and close personal relationships with the clients. We also had, in many cases, a very appealing lifestyle to offer with few of our offices located in major metropolitan areas. The commute to work in Dixon, Illinois or Oshkosh, Wisconsin is not the same trauma as it is in New York City or Atlanta.

One exception we found to the Big School-Big Firm Syndrome was the older student. This was particularly true for the nontraditional student who had worked his or her way through school—probably taking longer than the usual four years and in many cases, having workplace experience and the skills that come from “Real Life 101.” These students were more interested in a career than a “starter job.” We also tried to find “nice people who were smart.” This doesn’t necessarily show up in the grade point average. You can teach accounting to someone. You can’t teach smart and you can’t teach “nice.”

Recruiting Experienced Staff

Another approach to hiring full-time professional staff is to attract experienced staff who have completed their “starter jobs” and are now looking for a career. (See Exhibit 5-2, “Report Results,” for the results of the marketing focus group study.) Many of these people have spent a few years in the "big city" and are looking for an improved lifestyle in addition to a fulfilling career. We offer both. In prior years, this was an effective means of adding good people. In the recent tight labor market it was not as effective. Nevertheless, we continue to seek people who just get fed up with the hassle of big city life and want a calmer environment in which to live, work, and raise their families. One minor problem with these people is the need to refocus their thinking, particularly in the area of attestation.

Many of these people have been taught auditing from the point of view of "earnings per share." Earnings per share is not a big deal for our clients. Most of our audit clients are family-owned businesses that wouldn't even have an audit except for some third-party requirement. Besides, most of our corporate clients only have 10 or so shares of stock. It is not a big deal to determine earnings per share. We have only a handful of Securities and Exchange Commission (SEC) clients and a policy in effect for more than 20 years that we will not accept new clients that have SEC reporting requirements. This is not to say that SEC practice is not an area to pursue. It does say that we are better at other areas of practice. Remember the earlier lesson: find out what you do best and do more of it; leave other areas of practice to those firms more qualified and experienced.

Recruiting With Employee Referrals

Another method of attracting staff is what we call the Recruiting Referral Reward (RRR) Program. One of our firm's best resources for new employees is the referral of current employees. This program has been very successful and, in our opinion, is much more effective than traditional "head hunters." Besides, it gives us over 1,000 full-time "head hunters," our present employees. Referrals must be made in advance of the interview and hiring process. This program has resulted in the hiring of many quality staff, both part-time and full-time. It can also be financially rewarding to the referring staff member with cash referral rewards reaching as high as $5,000 per referral.

Recruiting Using Teachers' Contract

For most of our offices, the four-month period from January through April is significantly busier than the rest of the year. This was made even worse when Congress passed tax legislation in the 1980s eliminating fiscal year-end reporting for most pass-through entities. These events required us to rethink our approach to staffing. Again, this was a process rather than an event. I believe our workload peak is similar to most firms in the country.

More than 25 percent of our workforce is on some form of employment other than full-time. This process has taken many years to accomplish and is an ongoing process in most of our offices and client service centers.

One approach we use is called “teachers’ contract staff.” Exhibit 5-3, “Sample Teachers’ Contract Advertisement,” is a typical newspaper advertisement used to attract these people.

We call it the “teachers’ contract” because it is basically a nine-month employment package with summers off. This is similar to the employment package for most elementary and high school teachers. Notice the language “whether you are returning to the workforce.” Obviously, we are trying to attract mothers with this invitation. Mothers with school-aged children would be particularly attracted to a career that offers them free summers. The appeal also says “or are currently employed and have prior experience.” This is to attract qualified staff from other firms that do not offer this employment option. This works great for the employee and the firm as well. With our heavy tax season production these people are a great help and we really don’t need them in the summer. It is one way to match the workforce with the workload.

Recruiting Using “Alumni”

Another approach in finding experienced staff is to continue a relationship with your former staff, or “alumni.” When you hire someone it should be the start of a 40-year relationship even if they are not with the firm for the entire period. Alumni can be an excellent source of new business referrals. They can also help in staff referrals. Keep in touch with alumni, keep them on the newsletter lists, and invite them to in-house continuing professional education (CPE) presentations. A periodic alumni party to update them on the progress of the firm can result in great benefit to the firm. In addition, we have had a number of people leave the firm over the years who realized that the grass was not really greener. They have returned to the firm and some have become partners.

Retaining Staff

Today’s staff, whether full-time or part-time, are more difficult to manage than the staff of yesteryear. For the most part, they are different. I said different, not bad. Many have a different value system than the older partners. Their loyalty is to themselves, not necessarily to the firm. The exception to this basic philosophy is their strong sense of loyalty to the clients they serve on behalf of the firm. They see work as only a small, but important, part of their overall life. This is in sharp contrast to many older partners who made their work the primary, if not total, focus of their lives. I understand this since I am one of the "old guys." When I was interviewing for my first full-time job as I approached graduation, one of the questions I always asked was, "How much overtime will there be?" The reason for the question was to see how much extra overtime money I could earn. When that question is asked today, the prospective employee wants to hear the answer, "none."

Like many of my partners, I came from a working class family, and was the first college graduate in the family. I was used to hard work and long hours, and very happy to have a well-paying secure job. This doesn't make me a hero; it's just the way it was for most of my generation. Today's young staff think differently. That doesn't make them bad; just different. Years ago "Madison Avenue" coined the phrase "DINKS"(double income no kids). DINKS are a large part of today's workforce. They have different expectations and a different outlook on what is important in life. This can sometimes cause conflict but it's a fact of life that isn't going to change. For example, when we told potential staff that we only work half-days during busy season, they didn't understand that "half-days" meant 6 A.M. to 6 P.M.

It is a different world. Get used to it because the so-called "good old days" are not coming back. In fact, if you're honest they were not that good anyway. If you are a partner in a CPA firm you understand the need to constantly accept change and to adapt to the new environment in order to continue the success of your firm.

When I started in public accounting 40 years ago, it was a white male dominated environment. This has all changed. By the year 2000 only 20 percent of new entrants into the workforce in the United States were white males. Firms that do not adjust to this demographic reality will not survive. This requires a lot of change in attitude and policies. With more than 50 percent of new hires being female it requires a recognition of different personnel policy needs. In the past many firms followed a strict "up or out" policy, meaning if you didn't continually advance "up the ladder" you were asked to leave. In the recent tight labor market, most firms have a policy of "if you have a pulse, you have a job." It is no longer the policy of most firms to require outplacement for those individuals that either don't have the necessary tools or necessary desire to reach the owner level. Long-term permanent managers and staff is now the norm.

The cost of turnover is a major cost not reflected in the financial statements of firms. Twenty years ago one of the large international firms did a study that estimated they had

$50,000 invested in a five-year employee. If we had to record a $50,000 write-off every time a five-year employee left, I believe all firms would take more time and be more flexible regarding staff needs. You have all heard “our people are our most important assets.” Isn’t it interesting that there isn’t any financial accounting when these “most important assets” are lost? When Lee Iacocca left Ford Motor Company for Chrysler, there wasn’t any accounting entry. Do you really believe his leaving did not have an impact on both companies?

So what can you do to keep your good employees and attract others? Obviously, you must offer competitive salaries and benefits and opportunity for advancement. However, you can also do a lot of other things. Discussion of several retention techniques follows.

Managing Part-Time Staff

The old paradigm for professional staff was a pyramid-shaped firm with lots of lower-level staff performing significant amounts of boring pencil-pushing detail work. The work was tedious and for the most part not interesting. Long hours were expected as the “billable hour” was the key ingredient to firm success. These people were given the prestigious title of “juniors.” The theory was that the slower workers were most profitable since they took more “billable hours” to complete the project, thus creating more work in process to be billed to the client. This is somewhat tongue-in-cheek…but only somewhat. “Juniors” with the highest billable hour totals were promoted to “senior.” This continued throughout your career until you became a high charge hour but ineffective partner. The system didn’t leave much room for part-time employees who were considered temporary or seasonal employees. This system worked okay for awhile. Then the world changed. Staff began to understand they could have a life as well as a career. They began to understand that it was acceptable to think, acceptable to try new ways to better client service.

Today’s approach to staffing is different. Basically, you define the job based on client service needs and ask, “Does anyone want this job?” Note the phrase *based on client needs*. Let me give you some examples of how this works.

> **Example One:** This job consists of 200 tax return clients. Your job is to interview the tax client or obtain client information based on a partner interview and complete the tax return using CCH ProFx input forms. When the return is processed, reviewed, and signed by the partner that unit of work is complete. When all 200 tax returns have been delivered your job is complete. You may have

to assist after tax season in the event of IRS examination of the return or if the tax client wants assistance with other services.

Example Two: This is a job for a part-time audit manager. Your job is 20 audit clients. You have the responsibilities to take all audits from pre-audit planning to report delivery.

Example Three: This is a job for an accounting services staff. Your job is 30 monthly accounting services clients. Your job is to prepare the monthly compilation using creative solutions software with client input on checkbook solutions. Your job includes preparation of compiled financial statements subject to partner approval prior to delivery. It also includes monthly sales tax returns, quarterly payroll tax returns, and any 1099s, W-2s, or other year-end filing requirements.

Notice that none of these examples included any mention of hours to be worked, as in 8 A.M. to 5 P.M. You see, the jobs are based on client service needs, not on days or the clock. We are not selling hamburgers, we are providing client service. This is based on the client's time schedule and needs, not ours. Isn't this the very definition of a professional? You are working for the client. The firm is just the conduit for this to happen.

Since this is a nontraditional definition of a "job" it raises questions like, "When do I work?" The answer is simple. You work when the client information is ready and you go home when the end products are delivered. You are a professional. Your schedule is dictated by client needs, not by the clock. Another common question is "Where do I work?" The answer is, anywhere you want just as long as the work is completed to meet the clients' expectations of timely delivery and you complete the work within the budgeted time and cost.

This approach to staffing is simple but highly effective. Basically, a significant number of your staff are "worker bee" employees. They are just about 100 percent productive in terms of chargeable time and, therefore, you can afford to compensate them accordingly. It works for the firm, and it works for the employees. For example, the tax preparer (Example One, above) could work 500 hours during tax season and earn a significant salary since he or she is 100 percent productive. The firm, using a multiple of three, can earn significant fees while, more importantly, meeting client service needs when all full-time personnel are maxed-out in terms of available hours.

Managing today's staff during this transition period is difficult. Initially, some full-time staff resented the fact that certain employees were not expected to work excess hours during busy times of the year. There was also resentment because much of the nonchargeable work, such as scheduling and training, was left to the full-time employees. These kinds of issues are no longer a problem. The culture now accepts and understands the staffing process. In fact, we have a number of full-time professional staff who previously were in the part-time category. Lifestyle changes can cause people to move back and forth from full-time to part-time and vice versa. The point is that we want to have a life-long relationship with everyone who works for Clifton Gunderson LLP. We need to work with them to accommodate changes in their lives that affect the amount of time they can give to client service. There are five different methods of payment for professional staff at Clifton Gunderson LLP. Exhibit 5-4, "Sample Chart of Part-Time Staff Benefits," explains the different methods and benefits for personnel who are less than full-time.

When we first initiated these changes, some partners were critical and felt that such a process would reduce staff involvement in the community and in the marketing efforts of the firm. I want to emphasize these are part-time employees; they are not part-time people. They are full-time people, active in the community and involved even more in marketing activities than many of the full-time employees. Another complaint in the early years of the transition to a workload-based workforce was that clients wouldn't accept it, that they would call the office only to find their primary contact person was not at work. This concern was also unfounded. We pay our staff very well. They can afford to have a telephone at home and, in most cases today, in the car as well. Our people understand the 24/7 ways of today's business world.

Employee Surveys

Be sure you understand employee needs, desires, and concerns. At Clifton Gunderson LLP we have periodic motivation and morale surveys of all offices and client service centers. Many firm associations offer this service to their member firms. This is an excellent way to learn about issues of concern to your present staff. Be careful not to ask about their concerns and then just ignore the issue. This can make the situation even worse.

Employee Evaluations

Everyone wants to know about their future and how they fit into the firm's plans for the future. Don't risk the loss of good people just because you don't take time to let them know they are important to the firm's future. Most firms have a system of staff evaluation. These systems range from casual to very formal with all kinds of forms, ratings, and rating criteria. These systems force supervisors to take the time to evaluate staff and give them the needed feedback and performance coaching they desire. The problem with these systems and forms is that they tend to become routine and sometimes negative. A great deal of the feedback is often about what the individual did wrong and needs to improve. What the staff person really wants to know is what the firm feels about his or her future. Make sure you take the time to listen to the employee and address his or her concerns and issues. Try to do this at a separate time from salary increases. Keep the focus on the future, not the past.

Exit Interviews

Another important way to control turnover is to make sure you understand why staff is leaving. Sometimes the stated reason ("a better job") is not the real reason; rather, the real reason is, "I can't deal with John another day." At Clifton Gunderson LLP, we use an exit interview form. The purpose of this information gathering is to make sure we know the real reason we lose a staff member so that we can correct any situation that is causing this turnover. Exhibit 5-5, "Sample Exit Interview Form," is a copy of the exit interview form.

Note question 2 on the form. We are looking for morale problems such as a "staff killing partner." For this to be effective, it must be confidential so that the staff member can be honest without burning a bridge or referral source for the future.

Motivation

One of the keys to staff retention is motivation. Don't assume motivation is always good. Webster's definition of motivation is "something that causes a person to act." If you motivate a person to leave the firm, that is not necessarily a positive action.

Personnel experts have done studies on motivation factors. They concluded issues such as money, vacations, and fringe benefits were not necessarily motivators. Relative money, meaning where you are compared to others, however, is a motivating factor. Everyone likes to know where they stand compared to others. They concluded by explaining that many of the major motivating factors affecting employees were basically *free* in terms of cost to the employer. Following is a list of what was found to be major motivating factors for employees:

- **Keep them informed.** They want to know what is happening and what the future holds for the firm and for them personally.

- **Let them know where you stand.** That is just realistic human behavior. I heard this explained the best by Bert Mitchell many years ago. Bert was one of the founding partners of Mitchell and Titus. Bert put it this way, "Everyone listens to radio station WII-FM. It is a station that we all listen to every day of our lives. WII-FM stands for 'What's In It For Me.'" Regular staff meetings can be a useful vehicle both for keeping employees informed and letting them know where they, their office, and the firm stand. Make sure you give them the truth and real issues. A monthly cheerleading meeting has little effect on bright intelligent people.
- **Use in-house personnel newsletters.** Make sure it is not just babies and bowling scores. These bright people want to know what is happening and how it may affect them. After all, they are listening to WII-FM every day. Make sure that staff meetings, newsletters, and other forms of communications are meaningful and informative.
- **Deliver an annual message.** One method of staff communication we have used for years is the CEO's annual message to all personnel. This annual message is a combination marketing piece and annual report. Full disclosure is made of firm financial information, including net earnings with information regarding mergers and new products and services. Firm fees and earnings are compared to the existing firm strategic plan. Discussion is included about issues and concerns of the firm, as well as the profession in general. Comments are made about the future and our expectations as a firm. We tell them the good news and the bad news. We tell them how we are doing and what we see for the future, both short term and long term. We just tell them the truth.
- **Disclose financials.** Some firms have difficulty with the concept of financial information disclosure to the employees. They fear that knowledge as to partner earnings will cause staff to complain about their own salaries. We don't agree with this secretive philosophy. It has been our experience that whenever there is a void of information someone will fill that void with a guess. We want our employees to know that the firm and its partners are financially successful. We want them to desire to reach the partner level. Also, keep in mind, at Clifton Gunderson LLP every employee at every level has a copy of the firm's strategic plan which, in part, clearly states our economic expectations.

- **Listen to them.** One of the basic jobs of a partner is the care and feeding of the staff. This is not a responsibility to be taken lightly. It is not a "when I get time" item, it is a priority. Make sure you take the time to just visit and let them know you care about them as people, not just as a resource.
- **Get to know them.** You can really break down the "we versus them" attitudes if you get to know them as people, not just as employees. Take them to lunch once in a while. Make it routine and random. Don't use the time to lecture them or evaluate them. Just have a personal conversation. As an aside, lunch is not a good setting to fire someone. If every time an employee has lunch with you they are gone in two weeks, you may find it difficult to receive a "yes" to your invitations to lunch. Your job is to listen. Listening is a key management skill. Most of us would rather talk and have others *listen* to us. This is a control issue. The person who is speaking has control of the conversation. However, when you are talking you learn nothing. This takes discipline but you can only learn when you are the one who is listening.
- **Appreciate them.** As previously mentioned, formal evaluation systems tend to focus on the negative. This is part of our inbred "auditor's mentality" of trying to find out what is wrong so we can highlight the wrong. This is so we can justify our own superiority and value. I call these people "hall monitors." They are a very destructive form of insect. Once discovered, they must be exterminated.
- **Seek ways to recognize them.** Make a conscious effort to find people doing something right. When you do, take time to write a brief personal note to that individual. That tells the individual you care about him or her as a person. Trust me, they will keep that note forever. Take time to know them as individuals, not just as employees. Try to know their families and the issues they are dealing with in their personal lives. If you know they are dealing with an aging parent issue, it will mean a lot if you ask them how their mom or dad is doing. Everyone wants to know that they and their efforts are appreciated.
- **Be consistent.** No one likes to be blindsided. Try to be consistent in your demeanor and how you deal with people. Try to avoid the martyrdom that so often plagues people during periods of stress. People generally are confused by highly erratic behavior. They want to be treated the same every day, and to know what to expect. If

you have made it your lifelong position to be an uncaring, first-class jerk, don't try to change your spots. Friendly first-class jerks can be very unnerving.

- **Be sincere.** Don't patronize employees. Don't tell them what they want to hear. Tell them the truth. Sir Walter Scott said it best 200 years ago, in *The Lay of the Last Minstrel* (1805), "Oh, what a tangled web we weave, when first we practice to deceive!" Be sincere and be truthful. Don't try to be loved by everyone. Do try to be respected. There is a whole lot of difference in the two. People are smart, and they want to know the truth about their performance and about their future.
- **Be firm but fair.** People want to know what the rules are. That is why firms have policies. Without rules or policies you have chaos; it is confusing and unfair. This is true for countries and it is true for firms. I always have trouble when I'm driving on the tri-state expressway in the Chicago area. The posted speed limit is 55 miles per hour, and the minimum safe speed is 70 miles per hour. I don't know what the rules are, and it is stressful and confusing. The biggest joke is the sign that says "Slower traffic keep right." What do they have in mind…the cornfield?
- **Be flexible.** Rules and laws are the foundation of a civilized society. They are also the foundation of a successful firm. If the policy is wrong, change it. If the policy is right, enforce it. Many of us are too willing to overlook policy violations. After a while, no one knows what the rules are. This is not fair to those individuals who are trying to follow the rules or firm policies. An example would be the employee who takes an hour-and-a-half lunch break, but only shows an hour on his or her timecard. Everyone in the office knows it. This person needs to be promptly warned that violations of firm policies are not acceptable, and continued violation will lead to termination.
- **Offer opportunities.** The most significant motivator is opportunity. Make sure your employees understand the outstanding opportunity they have with your firm.

A key factor in matching the workforce with the workload is the partner group. This will be covered in Chapter 6, "If You Are Short of Leadership the Firm Will Fail."

A Final Thought

I live in Door County, Wisconsin, which is 85 miles north of the frozen tundra of Green Bay. In this part of the country, there are only two seasons: winter and road construction.

Road construction is sometimes called summer, and lasts from July to Labor Day. Door County is a very tourist-dependent economy that presents local businesses with a very difficult seasonal staffing problem. This is very similar to the tax season issue that faces most of our firms. The businesses in Door County have done a super job in matching the workforce with the workload. We need to do the same thing. When you have a highly seasonal business, as many of us do, you have two choices. The first choice is to find something your clients want and need during the “off season.” This was discussed in Chapter 2. The other choice is to match your workforce with your workload. This task is made easier by the changing demographics discussed earlier in this chapter.

EXHIBIT 5-1
SAMPLE PERSONNEL PLAN

PERSONNEL PLAN—SPECIFIC STRATEGIC DIRECTIONS

1. We will continue to upgrade our personnel at all levels. Non-performers will be outplaced. Also, non-team members, and those who do not subscribe to this strategic plan, will be outplaced.
2. At least 30 percent of our workforce will be part-time by 20XX.
3. We will emphasize training in client service, client management, and technological training.
4. Our personnel will receive training to parallel the industry and specialty groups of the Badgertown Team.
5. We will hire specialists, when necessary, to complement our industry and specialty profile of the office.
6. The Badgertown Management Group will strive to maintain/improve our morale.
7. Communications to all personnel in the Badgertown Office will be open, complete, and consistent. We will develop a Badgertown Communications Plan, and stick to it.

EXHIBIT 5-2
RECRUITING REPORT RESULTS

Image

Corporate culture, or image, was a major issue discussed in the focus groups. "Everybody likes to be a winner, everybody likes to work for a winner," was a representative statement issued by one student. Basically, the students want to be associated with a firm that has "a feeling of quality." One that is classy and professional—and somewhat stuffy. They are looking for someplace to work, not a place to have picnics at everyday with all their work buddies. They clearly have a Yuppie attitude. That's what they're looking for, and they're going to choose the firm that most clearly has that associative image.

Unfortunately, most students automatically equate this image with the Big Firms—the BIG IS BETTER SYNDROME. This attitude is engrained in them from Day One by their professors. Since the accounting department gets big money from these firms, and some of the professors sit on their boards, naturally they're going to recommend them and tout them as the premier firms to work for. The professors openly tell students that the way to go is to start out at a Big Firm, and from there, they can go anywhere. The opportunities are endless. To do it any other way, is not how winners would do it. Students who do not receive multiple offers from Big Firms, are considered losers.

One of the major issues then, obviously, is exposure at the universities we want to recruit at. The students' perceptions of CPA firms are developed well before the interviewing process begins. Therefore, the first two to three years are very essential to positioning our firm as a quality firm in the minds of the students. Generally, students sign up for interviews only with those firms they've already decided are quality, prestigious firms. Their impressions are usually made based on consistent visibility of the CPA firm, scholarships offered by the firm, word of mouth from other students, professor's opinions, etc. If a firm is not visible on campus, and not considered by the faculty and fellow students to be one of the "chosen," the firm will generally not be effective recruiting there.

Fast-Track Programs

In their opinion, at this stage of their career, advancement is not that important to them. Any type of a program that will take the students out of the mainstream or focus on their individuality is not of interest to them at this point. As a matter of fact, it scares them. They figure, if you're good, you're going to go up fast no matter what firm you're with or what type of program you're in. They would never want to be tagged as a "fast tracker" even if they were one. They wouldn't want everybody to know. They like the youth factor of working with people their own age. It gives them a dynamic feeling and allows them to be with a "class of new people." This way they are not intimidated.

Marketing Orientation

There were conflicting attitudes toward marketing. For the most part, they expect more marketing, advertising, and social responsibilities. One comment was that "anybody can plug numbers into a calculator. If you don't get new clients, the firm's not going to grow, and you're not going to be valuable to the firm." On the other hand, some students expected to work from 9 to 5, with no extra time involved. They felt their marketing responsibilities only included getting the work done (not necessarily client service, but moreso simply getting the work done).

Job Security and Turnover

The students don't see job security as a major factor. Their perception is that there are so many different things they can do and opportunities available, that if the first job doesn't work out, it's no big deal. In fact, they intend to move on anyway within 2-3 years just to do something different. They'll start at the top (Big Firms) and then move on from there.

The exception to this feeling was the "non-traditional age students" in their late 20s, who wanted to go to work someplace where they could stay for, perhaps, the rest of their career.

Opinions Relating to Brochures, On-Campus Interview Process

Interview Process

The personal interviews are the single most important deciding factor in the student's choice of a CPA firm. (Keep in mind that they have to choose to interview with you in the first place before any of this becomes important.) Therefore, the most important factor in the interviewing part of recruiting, is the person(s) you choose to represent you on campus, and subsequently, the other people the students meet during the office visits. These people ARE the firm. Students want to meet as many people from the firm as possible. They prefer that interviews are informal. They don't like playing 20 questions; they'd rather talk and just get to know each other. They would appreciate information regarding the city they're being recruited to (visitor's bureau brochure).

Brochures

Basically, the students view brochures as interchangeable. Any brochure could have any firm's name on it. They agree the way it looks creates an impression, but not the words, because nobody reads them (except in preparation for an interview). They prefer visual information. Bar charts are good. Question/answer format is good. Bar charts that compare the firm recruiting with other firms. Client list, types of clients, what the firm specializes in. They said they could relate better to names of clients the firm serves. Also industries.

EXHIBIT 5-3
SAMPLE TEACHERS' CONTRACT ADVERTISEMENT

WANTED: ACCOUNTANTS, AUDITORS & TAX PREPARERS

Would you like to have a rewarding career and yet have your summers off?

Clifton Gunderson LLP, Certified Public Accountants and Consultants, is seeking qualified applicants to fill immediate openings for experienced accountants, auditors, and tax preparers who would like to work from September through April on a continuing basis. PAID FRINGE BENEFITS PROVIDED YEAR-ROUND.

Whether you are returning to the work force or are currently employed and have prior experience, preferably with a CPA firm, we would like to talk to you in confidence.

Call ____________________ to schedule an interview and meet our staff.

α1

Arizona Colorado Illinois Indiana Iowa Maryland Missouri Ohio Texas Virginia Wisconsin

EXHIBIT 5-4
SAMPLE CHART OF PART-TIME STAFF BENEFITS

PRORATED BENEFITS FOR PART-TIME PERSONNEL
(Based on Estimated Annual Hours)

Job Group Level	*Less Than 1,040 Hours*	*1,040—1,559 Hours (50% Level)*	*1,560—2,079 Hours (75% Level)*
Exempt/Part-Time			
Manager	NO Benefits	60 hrs. Vacation	90 hrs. Vacation
	YES Retirement plan**	36 hrs. Holiday	54 hrs. Holiday
	NO Overtime —excess hours are not banked	NO Group insurance*	YES Group insurance*
		YES Retirement plan**	YES Retirement plan**
		NO Overtime—excess hours are not banked	NO Overtime—excess hours are not banked
Exempt/Part-Time			
Professional staff	NO Benefits	40 hrs. Vacation (10+ yrs. = 60 hrs.)	60 hrs. Vacation (10+ yrs. = 90 hrs.)
Office administrator	YES Retirement plan**	24 hrs. Sick	36 hrs. Sick
Supervisor of support staff, accounting services, or data processing staff	YES Overtime—Hours over 40 per week are paid at straight time	36 hrs. Holiday	54 hrs. Holiday
		NO Group insurance*	YES Group insurance*
		YES Retirement plan**	YES Retirement plan**
		YES Overtime—hours over 40 per week are paid at straight time	YES Overtime—hours over 40 per week are paid at straight time
Non-Exempt / Part-Time			
Intern	NO Benefits	40 hrs. Vacation (10+ yrs. = 60 hrs.)	60 hrs. Vacation (10+ yrs. = 90 hrs.)
Paraprofessional, accounting services, data processing, support staff	YES Retirement plan**	24 hrs. Sick	36 hrs. Sick
	YES Overtime = x 1½ over 40 hrs.	36 hrs. Holiday	54 hrs. Holiday
		NO Group insurance*	YES Group insurance*
		YES Retirement plan**	YES Retirement plan**
		YES Overtime = x 1½ over 40 hrs.	YES Overtime = 1½ over 40 hrs.

*Must work minimum of 1,560 hours per year (30 hours per week, year-round) to qualify.

**Must work minimum of 1,000 hours first year of eligibility; minimum of 501 hours worked subsequent years.

EXHIBIT 5-5
SAMPLE EXIT INTERVIEW FORM

EXIT INTERVIEW FORM

Name ______________________________ Date hired ___________________________

Employee # __________________________ Last day worked _____________________

Job title ____________________________ Resigned _______ Discharged _______

Office _________________________________

1. Did you feel your partner-in-charge (PIC) and immediate supervisor:

	Always		*Usually*		*Sometimes*		*Never*	
	PIC	SUPR	PIC	SUPR	PIC	SUPR	PIC	SUPR
• Communicated policies and procedures?	____	____	____	____	____	____	____	____
• Followed policies and procedures?	____	____	____	____	____	____	____	____
• Demonstrated fair treatment?	____	____	____	____	____	____	____	____
• Provided recognition for a job well done?	____	____	____	____	____	____	____	____
• Encouraged cooperation?	____	____	____	____	____	____	____	____
• Resolved complaints and problems promptly?	____	____	____	____	____	____	____	____
• Could explain firm benefits?	____	____	____	____	____	____	____	____

2. What was the status of the morale among employees in your office?

   Excellent ______ Good ______ Fair ______ Poor ______

In your opinion, were there any specific factors that influenced morale either positively or negatively? ______________________________

3. How did you view your chances for advancement?

   Excellent ______ Good ______ Fair ______ Poor ______

4. Was your decision to leave the firm influenced by any of the following? If so, please rank numerically, 1, 2, 3, etc. in order of importance.

   ____ Better job opportunity ____ Self-employment

   ____ Type of work ____ Health

   ____ Rate of pay ____ Return to school

   ____ Supervision ____ Other (specify)

   ____ Family/personal circumstances

   Please explain: ______________________________

   ____

5. Other comments: (Write on back or attach an extra sheet, if necessary)

   ____

   ____

   ____

   ____

   ____

   ____

   ____

______________________________ ____________________

Signature Date

Chapter 6

If You Are Short of Leadership the Firm Will Fail

If you are short of cash you can borrow money. If you are short on leadership you will fail. One of the primary responsibilities of the partner group is to provide leadership to the firm. Accordingly, it is critical that at least some members of the partnership group have leadership skills. The higher the percentage of partners possessing leadership skills, the higher the likelihood of long-term firm success. Long-term firm success all starts with partner selection and development.

We have a formal partner selection process at Clifton Gunderson LLP. Excerpts from that policy are included in Exhibit 6-1, "Sample Partner Selection Process Policy."

As with any team it is important that the manager (managing partner) build a successful team. Accordingly, you need to make sure there are a variety of different talents that, when combined, result in an overall strength greater than the individual parts. For smaller firms it is important to have a mix of ages so that most of the partners don't reach retirement age at the same time. This is the responsibility of firm management.

One common issue and concern for many local firms is when the key partners all reach retirement age in a short period of time. In some cases this results in the demise of the firm because there is no next generation of leadership to carry the firm into the future. This problem is compounded for those firms with significant unfunded partner retirement benefits. Many firms faced with this problem are forced to seek an upward merger or sell out to a consolidator. There is nothing wrong with upward merger or selling the firm to a consolidator. The point is, you do not want this as your only exit strategy.

Another responsibility of firm management is to achieve and maintain an acceptable level of partner earnings. I have known firms that make anyone a partner who is willing to sign on the bank debt. Every partner added to the partnership should increase overall partner earnings in the long run. Admitting partners who do not bring this value will eventually result in the demise of the firm. The same philosophy applies to the admission of partners by merger. The primary reason for a merger is so that the partners of both firms will have greater earnings as a result of the merger. One paradigm that has changed over the years is the concept that once you become a partner you remain a partner forever. This is no longer true. I'll discuss this in Chapter 7.

Why Firms Fail

I mentioned earlier that some local firms fail to survive after the first generation of founding partners due to the failure to develop the next generation of leadership. Why is this such a common problem? A typical local firm has its beginning when two or more individuals, with common goals but unique talents, start a firm. In many cases this is the result of two or more individuals leaving a large firm to strike out on their own. These individuals generally have a high level of entrepreneurial spirit and skill. If they didn't, they probably would not have made the move in the first place. In some cases, they purchase the practice of a retiring sole proprietor as a beginning base. In many ways it is the CPA firm equivalent of a dot-com start-up firm. They leave the comfort and security of the large firm in order to "do it their way." The successful ones are hard-working, driven individuals with a high level of personal energy. In most cases, they have to give up earnings in the early years in order to succeed and prosper.

Compensation comes in two forms. The most common form of compensation is cash—what we earn from our efforts. There is, however, another form of compensation. I call it emotional compensation—the feeling you have because you have accomplished your goals and have built a successful firm. It is this second form of compensation that is the driving force for many successful people. This is particularly true for the founding partners of CPA firms. Through hard work and driven by the high of the emotional compensation, the founding partners build a growing profitable firm usually due to outstanding client service and dedication to meeting the needs of the clients. Their success creates the problem of too much work and not enough hours. The next step is to hire staff. They are not looking for future partners at this point in the firm's history; they are looking for people to help get the work done. This leads them to hire "worker bee"-type individuals. They need strong technical workers. If the employee happens to have the personality of a kiwi, who cares—just get the work done in the back room.

All is fine for a while. The entrepreneurial founding partners keep bringing in the work and the backroom techies keep grinding it out. All is well and the firm grows and profits soar. The founding partners may even promote one of the staff to partner, generally out of fear of losing him. By now, the firm may have grown to 10 or 20 people and the original founding partners approach retirement age. They have built a firm of more than a million dollars in fees and have enjoyed great compensation, both economic and emotional. Now what do they do? The next generation has basically no entrepreneurial skills and the third partner is a worker bee-type that you try to keep away from the clients so he can get his

2,000 charge hours. Houston, we have a problem. More correctly, the two founding partners have a problem. They have an unfunded partner retirement package and little, if any, confidence in partner number three or the technical staff they have hired to do the work they brought in. Sure, they are good, hard workers but they have zero skills at management or client development. The two founding partners are sitting on a valuable million-dollar asset—the firm they built—and do not see any possibility of receiving payment after retirement. Meanwhile, the third partner and the rest of the employees do not see any possible way they can meet the payout responsibilities to the soon-to-retire founding partners. The net result is usually an upward merger or sale of the firm because there really isn't any alternative.

Sad story? You bet it is. If any part of this story sounds like your firm or office, make sure you pay attention to succession planning and have in place the future leadership needed to allow the firm to succeed to the next generation. You may decide the best course of action is to merge or sell, but at least you will have the option of taking the firm into the next generation without sale or merger.

Part-Time Partners

Leadership is also about making sure you understand the changing economic environment and adjust policy, when necessary, to insure the long-term viability of the firm. Don't get caught in the trap of what worked in the past. That might not be the case when the rules change. An example would be Clifton Gunderson LLP's policy on part-time general partners. In keeping with the philosophy discussed in the previous chapter, "Match the Workforce to the Workload," we adopted a policy for part-time general partners. A copy of that policy is in Exhibit 6-2, "Sample Part-Time General Partner Policy." Exhibit 6-3, "A Timely Endorsement of Part-Time Partners," is a reprint of an article on Clifton Gunderson's part-time partner program from the October 1994 issue of *The Practicing CPA*. The idea came from one of our leadership career program classes. More on that program later in this chapter.

Many firms are taking a critical look at their existing policies regarding partner admission, retention, and retirement. It is always important to find, develop, and keep future leadership. This is true for all firms of all sizes.

Leadership will not succeed unless the firm is willing to understand that all people are significant and deserve your respect. Following is a little story from the January 1996 issue of *Guideposts*. It is the very essence of what successful leadership is all about.

A Most Important Question

> During my second month of nursing school our professor gave us a pop quiz. I was a conscientious student and had breezed through the questions, until I read the last one: "What is the first name of the woman who cleans the school?"
>
> Surely this was some kind of joke. I had seen the cleaning woman several times. She was tall, dark-haired, and in her 50s, but how would I know her name? I handed in my paper, leaving the last question blank.
>
> Before class ended, one student asked if the last question would count toward our quiz grade. "Absolutely," said the professor. "In your careers you will meet many people. All are significant. They deserve your attention and care, even if all you can do is smile and say hello."
>
> I've never forgotten that lesson. I also learned her name was Dorothy.
>
> JoAnn C. Jones, Brockville, Ontario
> *Guideposts*, January 1996

It is important to understand that leadership is everyone's responsibility. It is not just the responsibility of the managing partner. It is the responsibility of every partner. It is needed to provide fresh ideas to firm issues and problems. It is needed to insure continued profitable growth of the firm. Leadership is important to establish and carry out the priorities of the firm. It is also important to provide direction and support to the staff.

What Is Leadership?

One of the questions I am often asked is, "What exactly is leadership?" One of the best definitions of leadership I have found is as follows:

> Provide general direction to the firm—not sure of all the risks out there, but we must move in a general direction understood by everyone.

There are four basic elements of leadership:

- Innovation (creative)—part of helping the firm grow
- Intuition (visionary)—part of helping the firm grow
- Renovation (managing)—management of the firm
- Regulation (control)—maintaining control

As CPAs, most of us are pretty good at management and control (renovation and regulation). However, we tend to fall short on creative and visionary (innovation and intuition). As a group, we need to concentrate on the innovative aspects of leadership. We need to focus with a clear vision and to communicate that vision with meaning and respect. We then need to develop trust in that vision through execution of a plan of action in cooperation with all partners and staff. A. Bartlett Gramatti, a past president of Yale University, defined leadership as “the assertion of a vision.” That is exactly right.

There is often confusion between leadership and management. The primary difference is control (regulation) instead of developing and executing a vision for the future (leadership). Most firm failures are because they are overmanaged and underled. Leadership cannot be forced or be the responsibility of a single individual. The right response when forced is not the same as the right response when it comes out of conviction.

Characteristics of Leaders

One responsibility of leadership is to make sure you focus on the winners and don’t concentrate on the losers. When you focus on the losers, you are wasting the firm’s precious resources of time and money.

Leaders have some common characteristics.

- A leader is one who knows where he or she is going (has a clear objective) and is able to persuade others to go with him. This is tough to do.
- A leader believes in the firm.
- A leader is a salesperson—he or she is selling concepts (a difficult thing to sell).
- A leader is a catalyst—helping people to contribute their best while drawing on the strengths of others.
- A leader is not a loner—he or she develops good interpersonal relationships and is enamored with people.
- A leader does not feel “threatened” by other capable people.
- A leader creates a good climate for learning.
- A good leader is not selfish. He or she lives to give—not to get—and to serve the people he or she is leading.
- A leader is able to translate abstract principles into action plans. This is a difficult task.
- A leader commands the respect of the people he or she is attempting to lead.

- A person is not a leader by virtue of position, rather by virtue of performance. Titles don't make it happen.
- Effective leaders adapt their style to the people and the needs of the firm.

Leadership is critical for the success of CPA firms because all partners are also owners and, in some larger firms, management is vested in a small group. The number one requirement of leadership is to keep everyone together moving towards a common goal that is in the best interests of the group being led. This is not easy, particularly with the partner group. Capable partners are difficult to lead because of the very characteristics that resulted in partnership status in the firm. They are very bright and capable or they never would have become partners. They are generally articulate, confident, and have strong personal egos. These are all great characteristics, but these same characteristics make it a very difficult group to lead.

Leadership is not something you get from a book or a course you take. It is a constantly changing and growing process. Warren Bennis and Burt Nanus in their 1975 book, *Leaders: The Strategies for Taking Charge*, did a survey of the CEOs of major corporations asking them to define leadership. This is what they found:

> When we asked our ninety leaders about the personal qualities they needed to run their organizations, they never mentioned charisma, or dressing for success, or time management, or any of the other glib formulas that pass for wisdom in the popular press. Instead, they talked about *persistence* and *self-knowledge*; about willingness to *take risks* and *accept losses*; about *commitment*, *consistency*, and *challenge*. But, above all, they talked about learning. [*emphasis added*]

Discussions of a few important leadership characteristics follow.

Ability to Take Risks

Notice the characteristic about willingness to take risks and accept losses. This is a critical responsibility of leaders. I am not talking about the "ready, fire, aim"-type of risk. I'm talking about realistic, well-planned risks with a clear expected result and self-imposed accountability. Many times failure to take a risk is the biggest risk of all. Notice particularly the words "accept losses." Inherent in the very word "risk" is the possibility that it won't work out as planned. That is why it is a risk. In order to survive in today's dangerous economic waters we all must be willing to take risks. There is no reward without risk. At the time of his retirement from major league baseball, Babe Ruth held the career record for strikeouts. Is that what he is remembered for? Of course he isn't. Until Hank Aaron broke his career home run record a number of years later, Babe Ruth was known as the greatest home run hitter of all time. In other words, no risk…no reward. This doesn't mean you should swing blindly at every pitch in the dirt. That wouldn't be a very good risk. But, it also doesn't mean you never swing out of fear of a strikeout. The safest place for a ship is in the harbor, but that is not what ships are for.

Ability to Accept Losses

Leaders must not only learn to accept losses, they must learn when to take them. I call it the "Rogers Theory of Finance." This theory is not taught at the college and university level. It is taught as part of "Real Life 101." It is a very simple yet important theory. You've got to know when to hold them, and know when to fold them. This is, of course, a line from Kenny Rogers' great song, "The Gambler." Some leaders and some firms fall in love with an idea, a concept, or a new product. This blinds them to the fact that it just isn't going to work. This is why it is important to have a clear plan with follow-up and accountability when you launch a new product or client service. Remember that it is okay to fail. If you have never had a failure or made a mistake it probably means you haven't had much success. Nothing ventured, nothing gained, is a true statement. However, when it is clear that the new product, new service, or new office isn't going to meet hoped-for expectations, you need to pull the plug. This is hard to do since it is an admission that your original idea or action was a mistake. Every firm only has two resources: time and money. In today's complex business world both of these resources are in short supply. Don't waste them on a loser. This is particularly true if you are the creator of the loser. Take your loss, shut it down, and concentrate on the winners. Success has a hundred parents and failure is an orphan. Don't fall into the trap of throwing good money after bad. In other words, don't draw to an inside straight. It's a bad bet.

Ability to Lead

Leaders have the responsibility to lead. This is sometimes confused by the natural human instinct to be loved and admired. This is an impossible goal for a leader. It is okay to ask for input and to listen to the ideas of others. However, at some point you, the leader, have to take action. Any action taken will result in some disagreement. That has to be accepted by the leader. As long as you feel you have all the input from the group that you need and feel the decision is in the best long-term interest of the group…go for it. Rest assured that if the decision is successful you will quickly have a very crowded bandwagon. If the decision results in failure, be prepared to play a solo. You can't lead the orchestra unless you turn your back to the audience.

Selling a new idea is a process. Be prepared for critics but, if you feel it is in the best long-term interests of the firm, stick to your guns. Major changes can take several years to gain acceptance and be implemented. Your ideas can be bullets or they can be seeds. Which approach to use can depend on the need for gradual versus instant change. Sometimes you do not have the luxury of using seeds, and a bullet is necessary. Seeds take time to germinate and sometimes you really don't have the time for that process. Also, if you plant the seed you may not get the credit when the crop is harvested or the blame when the crop fails.

Leadership Career Program

Back in the early 1990s our firm was expanding rapidly. We were short of leaders. This shortage of individuals was causing us to hesitate in our aggressive expansion. By expansion, I mean the development of new products and services, as well as geographic expansion into new markets. This was not a fault of our people. We had not taken the time to provide them with the necessary training. We had used some of the leadership training programs available at the time, but with limited success. These available leadership programs tended to be too much theory, and not enough practical knowledge training.

We concluded that to continue the firm's growth and financial success we needed to make a major commitment to partner training. The genesis of the program was our conclusion about the need to identify early potential firm leaders, not just future partners. We were growing rapidly as a firm and were clearly short of individuals with leadership qualities who were willing to assume positions in the firm, such as office partner-in-charge, that required leadership, not just management skills. As at many other firms, our talented young people had great technical skills and the normal management training, but something was missing. That something was leadership training. This encompassed the need to understand the current and future environment of public accounting; the need to see the big picture in terms of firm direction and priorities; and the need to inspire and lead others in achieving firm (not just office and individual) goals. The program we developed helped us meet these needs. This was an expensive undertaking. It also took a significant amount of time of firm management, as well as the time of the attendees, which, of course, consisted of our best and most productive managers and young partners.

Now, more than 10 years later, it is clear that it was one of the best investments the firm ever made. The program has helped produce an entire generation of new leadership. We call the program the Leadership Career Program (LCP). The program is made up of five components:

- A confidential individual development needs analysis
- On-the-job training assignments
- Formalized continuing professional education conducted in-house and outside the firm
- Required reading assignments
- Progress and assessment reports by the participants

As I mentioned, this program was a major commitment by the firm and by the participants. Participants spend about 200 hours annually on LCP work. For more information about our Leadership Career Program, see Exhibit 6-4, "A Way to Build Future Leaders," which reprints an article that appeared in the May 1993 issue of the *Journal of Accountancy*.

Developing the Entrepreneurial Partner

Like other firms, we are constantly trying to find ways to help our partners understand and deal with the dramatically changing business of public accounting. We recognize that our young partners and managers have had little, if any, training in the business aspects of managing and growing a successful firm. In the early 1990s we teamed up with TAG International, an association of CPA firms, to develop a program called, "Developing the Entrepreneurial Partner." This is a very intense two-and-a-half-day program for managers and partners to teach them about the business of public accounting. It is the short course of "Real Life 101." The program covers all aspects of the business-side of public accounting including all the principles covered in this book. The course requires pre-attendance reading, extensive round-table discussions, and many real life case studies. It also includes a unit that is actually called "Case Studies in Success (Real Life 101)." This unit features the managing partner of one of the TAG member firms discussing the history of his or her particular firm with the emphasis on key leadership decisions and the resulting impact of those decisions on the firm. It puts a real life punctuation to the theory they have been learning about for two days. The need for leadership training is clear from the high level of attendance for this program, which has been the highest rated program offered by TAG to its members for a number of years. TAG recently merged with Accountants Global Network (AGN) International—North America, another CPA firm association.

A Final Thought

Colin Powell, in his superb book, *My American Journey*, gives an excellent lesson on leadership. Some of the leadership points covered in his book are as follows:

- **Make the difficult decisions.** This includes some decisions that are tough to make or even unpopular.
- **Don't punish every mistake.** Remember it is okay to make a mistake as long as you are trying.
- **Have clear objectives.** We covered this in Chapter 1.
- **Make your team feel important.** This speaks for itself. The payback to the firm is enormous.
- **Be skeptical of experts.** Many of us have paid a big price for not listening to this advice.
- **Never beat down enthusiasm.** When someone has a good idea, be sure to support his or her efforts.

My American Journey is a powerful book by a great leader and a reminder that effective leaders are needed by all organizations if they are to be successful.

If you stand for everything, you stand for nothing. It is certainly wise to seek advice and input from others. However, a true leader needs to follow his or her own plan or judgment in leading the firm. If you try to please everyone you'll end up with a disaster. Do what is right, even if others don't agree.

Without adequate leadership your firm will eventually fail. Make the investment. The return on investment in leadership training will be continued growth and economic reward for you and your fellow owners.

EXHIBIT 6-1
Sample Partner Selection Process Policy

Partner Selection Process

There is no fixed number of partners, and we expect the number to grow as our services and organization expand. To insure the selection of only those persons possessing the characteristics needed for the continuing quality growth of the firm, we have adopted this policy.

As the firm continues to grow it is more and more difficult for firm management to personally know the abilities and potential of firm managers. Accordingly, it becomes even more critical that local office partners, particularly the office partner-in-charge (PIC), give careful consideration to the partner selection process. As we continue to expand, more and more responsibility must be shifted to the local office. Firm management's role in the process will continue to be the overall management of the number of partners the firm needs and can afford. Firm management must continue to challenge local office nominations to insure that only those candidates who clearly possess the characteristics outlined below are admitted to the partnership.

As indicated above, firm management has the responsibility to manage the number of partners admitted in any given year and the impact on partner earnings as well as the total number of partners in the firm at any given time. Admission of partners by merger and from the staff and the retirement or outplacement of partners are all factors in this management process. Section V of the Manager Performance Evaluation form asks for the local office recommendation as to when an individual manager will be considered for partner. Future overall management of the number of partners will utilize this information. Accordingly, careful consideration should be given before completing this section.

Throughout the selection process it is important to remember the characteristics we are looking for in a partner. The following definition is one of the best we have found.

Characteristics of a Partner

It has been said that the chief function of the partners is to set the tone and create the climate in which staff development can best flourish. Partners demonstrate through their own behavior the high standards of performance and character required for advancement in the career of public accounting. Whether they realize it or not—and whether or not it may embarrass them personally—they can and do serve as a basic source of inspiration to the persons who work for them. It is most important that the partners strictly adhere to policy pronouncements of the firm as expressed in the partner and office manuals, and other firm publications. The status of partner represents the goal of the ambitious young staff person and is the mark of arrival in the profession. Upon becoming a partner, he or she assumes personal responsibility in the eyes of the public for his or her actions and those of the firm. Each partner obligates himself or herself to maintain a high standard of professional work and conduct. Every effort should be made to build up the business as a firm, and not for the individual partners thereof. The partner should conduct himself or herself in a manner befitting a professional person and in strict accordance with the ethics of the accounting profession and the rules and regulations of the State Society of Certified Public Accountants, the American Institute of Certified Public Accountants, and other regulatory bodies.

In selecting new partners, the following basic qualities should be prevalent:

A. Technical Ability

A prospective partner's technical achievements are measured in terms of his or her intelligence, skills, and experience, and by the manner in which he or she applies these attributes. He or she must be able to plan, program, and see that assignments are carried out properly. Closely allied with this is a combination of creative ability, initiative, imagination, perseverance in solving problems, and an analytical aptitude considered necessary to the proper application of technical skills.

B. Personality and Temperament

Of great importance is a prospective partner's social characteristics—his or her ability to work well with other people, and his or her capacity to command the confidence and respect of clients, partners, staff, and administrative support personnel. He or she should also be a superior supervisor, able to work effectively under pressure. He or she must be able to train and encourage staff members. He or she should be a leader, but not a "climber," and give evidence of ability to continue to study and grow. It is naturally assumed that any partner has to be a person of unquestionable integrity and high moral standards.

C. Dedication and Understanding of Client Needs

Partners should place the interests of the firm and client above their own. They should be deeply devoted to their chosen field and to further develop their professional abilities. They are expected to have a sense of responsibility toward their work, the firm, and the profession as a whole.

Partners should understand and carry out the firm's mission. They must understand that close personal attention to client needs is the driving force of their firm. They must also understand and practice the one firm concept. The firm is more important than any individual or any office—all partners must understand this.

Successful partners must be able to understand and meet the needs of clients. They must understand that the role of a partner has changed. It is no longer acceptable to just be technically competent. Partners must also provide forward-looking services that are creative and innovative. They must have the ability to understand a client's problems and needs. Like our clients, partners must possess the characteristics of the entrepreneur.

Specific Guidelines and Criteria

In addition to satisfying the above general characteristics of a partner, the candidate should meet the following specific criteria, fit into the long-term plans for the firm and office, and have demonstrated his or her ability to achieve specific goals established for each individual manager. In addition, financial considerations such as office profit, volume, and number of partners must be weighed.

A. *Specific Criteria*

The following criteria have been agreed to by management as required for promotion to partner.

1. Objective Requirements

- Generally at least eight years of public accounting experience including at least two years as a Clifton Gunderson manager.
- After consideration of the verbal and written evaluations, the person must receive a positive vote of at least two-thirds of all partners in the office.
- A definite track record for acquiring new business and expanded services for existing clients.
- Have demonstrated the ability to manage work in process (WIP) and accounts receivable to the satisfaction of the Chief Operating Officer for a period of at least one year prior to nomination.
- Absolute adherence to all firm and professional quality control standards and compliance with all firm professional and business requirements.
- Willingness to sign the partnership agreement.
- Approval by the Partnership Board and the Partners as a whole in accordance with the partnership agreement.
- Continued achievement of previous criteria.

2. Subjective Requirements

The person considered for promotion shall:

- Have demonstrated the ability to fill in at partner level on all assignments.
- Have demonstrated the ability to be innovative and creative.
- Be deeply involved in the nontechnical area of client management.
- Have demonstrated the ability to gain the confidence of his or her clients to the extent that they look to him or her for counseling and advice and call on him or her directly for most of their required services.
- Be able to manage personnel and have the absolute respect of all staff and administration support personnel.
- Be an active participant in our firm's marketing program and have demonstrated the ability to attract new clients and expand services to existing clients.
- In cases where previous specific goals have been set, have fulfilled these goals to the satisfaction of the office partners.

EXHIBIT 6-2
SAMPLE PART-TIME GENERAL PARTNER POLICY

Part-Time General Partners

Section 37 of the Firm's LLP Agreement authorizes part-time status for general partners. Section 37 states, in part, "the Board has the power to negotiate and enter into agreement on behalf of the Firm with such general partner(s)." The purpose of this policy is to state the basic parameters the Board will use in entering into part-time general partner agreements to insure that all such partners are treated consistently.

The parameters or guidelines are as follows:

- Part-time status for general partners will be permitted during a phase-out period leading to full retirement for a period not to exceed five years, or due to a lifestyle change for a period not to exceed three years. After the three-year period, a request for extension or renewal of the part-time general partner status will be subject to approval of the Partnership Board, and must have unanimous approval of all local office general partners.
- If otherwise eligible, these partners may elect to receive Section 38 benefits.
- Section 38 benefits (base for calculation and vesting) will be frozen once the part-time partner elects to begin receiving them.
- Capital requirements of all part-time partners (special or general) will be based on estimated income in the same ratio as full-time general partners.
- Part-time general partners will remain in the partner evaluation and profit-sharing system. Any special compensation arrangement will only be considered if the partner withdraws from the Firm, and enters into a special partner arrangement with the Firm.
- Part-time general partners will have profit-sharing units in the same ratio as full-time general partners (presently 75 percent of total profit share), will be allowed to vote these profit-sharing units, and may be elected to the Partnership Board.
- A part-time partner, special or general, may not have any employment other than as a partner of the firm without specific written approval of the Firm's CEO, subject to approval of the Partnership Board.

These guidelines or parameters may be modified at any time by the Partnership Board. However, any existing agreement entered into using the above parameters and guidelines will remain in force and will not be affected by any modifications.

EXHIBIT 6-3
A TIMELY ENDORSEMENT OF PART-TIME PARTNERS

EXHIBIT 6-4
A WAY TO BUILD FUTURE LEADERS

The One Firm Concept—Take Care of Each Other

Chapter 7

If you want your firm to be successful and survive in the new economy you must practice the one firm concept. It is a simple concept. Whenever you have a decision to make regarding use of the firm's time or money, put the best long-term interest of the firm first. The order of priorities for any firm is as follows:

- Firm, first
- Office, second
- You, last

Always ask yourself, "What is in the best long-term interest of the firm?" When you find that answer…do it! Even if it is not necessarily in your own or your office's best short-term interest. In order to follow the one firm concept, you need a clear understanding of the firm's priorities and obligations. The order of these priorities is important. At Clifton Gunderson LLP, the order of our priorities is as follows:

1. Serve our clients and help them achieve their business and personal goals
2. Meet our obligations to our retired partners
3. Provide for the more than 1,400 families that make up the current workforce
4. Meet the financial needs of the current partner group

Some firms get their priorities out of order. This can lead to the demise of the firm. Firm profitability and therefore partner earnings are the result of having taken care of the first three priorities listed above. If you take care of your clients and your staff while meeting your obligations to retired partners, firm profitability and partner earnings will follow. If you only focus on the bottom line and ignore the other priorities and their order of importance, you will find yourself in trouble in the long run. Some firms have taken shortcuts in the past in order to gain a short-term increase in partner earnings. Those that survive this approach generally pay a very large price for their actions.

We always need to remember who is the "enemy." The enemy is your competition. It is not the partner in the next room or the firm's office in the next town. Be careful not to waste precious firm resources by competing internally. If you do, your competition will win the war.

The Importance of Profitability

If you are to meet all of the priorities listed above, you must be profitable or the entire list is meaningless. Profitability is important, of course, for a lot of reasons including, but not limited to, the following:

- To keep the best and brightest staff and partners
- To fund future growth, thus increasing opportunity for all
- To stay in business to serve client needs
- To meet obligations of the firm, including providing jobs for everyone

If you are not profitable, you need to fix that situation in a hurry. By profitable I mean achieving a level of partner earnings that is acceptable to the group. If you are falling short of expected earnings goals, you have a number of options to fix the problem:

- **Get out.** Sell the firm or merge it into another firm with clearly stated exit options for the present partners. "Get out" is also an option for individual partners. More and more firms and individuals choose this option lured by a "grass is greener" mentality. Some can't deal with the pace of change. Others simply come to the personal decision that there is an easier way to make a living.
- **Get larger.** There are only two ways to grow your firm. The first way, internal growth, was discussed in Chapter 2. The other means of growth is through merger or acquisition of a practice. This follows the consolidation of the profession concept discussed in Chapter 1. More and more firms are merging in order to increase market share and, in some cases, eliminate competition. They also merge in order to collectively have the resources to produce the products and services to meet increased client demands. The advantages of getting larger include more resources, more talent, and more opportunity. A merger is a professional marriage. Make sure you know your soon-to-be mate. Merger is a high-risk action. Take time to really look it over and make sure both entities understand how the combined firm will operate. Everything should be clearly spelled out prior to the actual merger. Conflict after the merger can result in disaster. There is every reason to believe that increased merger activity will continue for many years to come. Make sure you have clear-cut objectives that can be agreed to by both firms. Undoing a bad merger is a destructive activity for both firms. However, if you do it right, it can have significant benefits for both firms.

- **Get smaller.** The concept of "getting smaller" sounds un-American. However, if it can increase profitability, it is an option that should be considered. There are two major ways to get smaller: restrict your practice as to services provided, or restrict your practice as to industries served. In the first case, this may mean restricting your practice to tax and compilations. Just get rid of audit and review clients. This will eliminate a lot of risk and allow you to focus continuing professional education (CPE) and other training for the partners and staff. Many smaller firms have taken this course of action. By restricting your practice as to industry you can concentrate on becoming an expert in one or more industries. Experts, both real and imagined, command premium fees in today's world.

  Another way to "ungrow your firm" is to drop clients that are not profitable or to raise fees to a level that will force some clients to go elsewhere. This is the old cliché about "work smarter, not harder." The net result is a decline in gross fees and an increase in earnings. If you drop unprofitable clients, you also may be able to temporarily reduce staff while you concentrate on bringing in more profitable clients in your practice areas of expertise.

These kinds of actions are best considered at the annual partner retreat with full input from the entire partner group, as well as key staff that might be affected by changes in firm direction. This is another reason why strategic planning for the firm is so important.

Difficult Partners

In the prior chapter on leadership I said, "Don't concentrate on the losers—focus on the winners." Unfortunately, many firms find this difficult, if not impossible, to do. They spend a great deal of energy and time dealing with and attempting to salvage problem partners. This is also an area where managing partners hope the problem will simply go away. Rest assured the problem won't go away. It needs to be dealt with, and the sooner the better. It is important to distinguish between problem partners and partners with a problem. These are two totally different issues.

Problem Partners

First, let's discuss problem partners. These are partners who rock the boat and try to convince others that there is a storm at sea. They do not practice the one firm concept. They only think about themselves, and are convinced that they are the sole reason for any financial success they have achieved. They give the firm zero credit for the opportunities they have received. It is all "I" and never "we." They are basically negative people and usually demeaning to staff and support personnel. They are anti-everything, and like to have conversations with people who can't fix the problem they are complaining about. They won't go with the consensus—even when they have had adequate opportunity for input. These individuals are like cancer cells. If you don't rid the firm of them, they could infect the entire organization even to the point of causing the death of the firm. It is the responsibility of firm management to rid the organization of these people. In smaller firms, failure to deal with this issue can result in the split up of the firm. The temporary disruption and the loss of a few clients is a small price to pay for the elimination of these "loose cannons." Don't fool yourself into thinking these people will change. It won't happen. The problems they create will simply escalate until it is no longer tolerable to the group. The sooner you deal with it the better off you will be in the long run. Don't listen to the voice that says, "let's wait until the time is right." The time is right now. The same principle applies to dealing with problem staff. The only difference is that a problem staff person probably doesn't have the ability to sink the firm.

It is common for most of us to ignore a problem in hopes that it will simply go away. At one time or another, we have all been guilty of this shortcoming. Some individuals, however, suffer from what I call White Tailed Disease (WTD). This is an illness that can be fatal. Northwestern Wisconsin has an abundance of white tailed deer—some would say an over-abundance of white tailed deer—others would say a serious over-abundance of white tailed deer. I am not a hunter, but I certainly understand the need to control the herd. They are a major cause of automobile accidents in this part of Wisconsin. White tailed deer are beautiful animals but, for the most part, are dumb as a rock. They are also, for some reason I don't understand, fascinated by vehicle headlights. They like to stand in the middle of the road and stare at oncoming headlights. I suppose this is where the term "deer in the headlights" comes from. If you attempt to switch lanes to avoid them, they more than likely will follow your headlights into the new lane. This results in a lot of deer road-kill, and a great deal of auto body repair work. The point here is that some partners get WTD. They stand in the middle of the road until the truck hits them, so to speak. If the white tailed deer would simply move to the shoulder or into the field they could escape disaster. If they would just act! The same is true for the partners with WTD—if they would just act they would avoid disaster. This is particularly true when dealing with problem partners. Never expect that they will change their negative behavior unless there are serious consequences for their negative behavior. It just won't happen. In fact, when confronted with this negative behavior they will deny it exists. After several unsuccessful attempts to change the negative behavior of a problem partner, you will come to realize that these people need to leave. Not only is this in the best long-term interest of the firm, it is often in the best long-term interest of the individual partner as well.

Sometimes the outplaced partner is not a problem partner, but merely an individual who can no longer perform at minimum acceptable performance standards. This is a much more difficult task than the problem partner issue. Nevertheless you must, for the long-term continued success of the firm, also deal with this issue. The issue usually comes into being because of earlier low standards for admission to the partnership. In addition, however, you can have the situation of partners who simply can't deal with all the changes of the new world of public accounting. They just can't adjust and can't or won't learn. They are not bad people; they are just over their heads in the floodwaters of the new minimum performance standards for a partner. They know it before you even bring up the issue. Each year they fall short of reaching their agreed-to set of goals, and each year they find themselves lower and lower on the schedule of partners' compensation. It is firm management's responsibility to help them find a new position outside the firm, where they can obtain some sense of self-worth. It is a disservice to string them along year after year when both you and they know they are not able to perform at the present acceptable level for a partner in today's world. In the long run, the firm, as well as the individual partners, will be better off. The only place where "lovable losers" really works is at Wrigley Field—home of the Chicago Cubs.

Partners With a Problem

Now, let's take a look at partners with a problem. This is a completely different issue than problem partners. One of your responsibilities as a partner is to take care of the firm. This includes taking care of or helping your fellow partners during a time of need. Partnerships that are successful are the ones where partners care enough about each other to help when there is a problem. If all you care about is what you can get, you are not a very good partner. I am not talking about being an enabler for a problem partner. I am talking about helping a partner who needs help.

How do you know when a partner needs help? In almost every case you will see a significant drop in performance. This can be sudden or over a period of time. Just as your primary job is care and feeding of the staff, it is the managing partner's primary job to see to the care and feeding of the partner group. It is not only in the best interest of the firm to help partners with a problem—it is the right thing to do. Don't kid yourself. It's a tough assignment. Most partners with a serious problem will do everything they can to not only hide the problem, but also to deny a problem even exists. This is merely human nature. No one wants to admit there is a problem they can't handle. After all, we are in the problem-solving business. Admitting you have a problem you cannot handle may be seen as a sign of weakness. Again, the usual sign of a partner with a problem is a significant drop-off in performance levels. In my more than 25 years as a part of firm management, I have seen this situation many times. In almost every case the problem was of a personal nature. It is your responsibility to help the partner overcome the personal problem and return to his or her role as a key part of the firm's continuing success. This can be a difficult and time-consuming activity. This is especially true when the partner with a problem is in denial. The effort is worth it. Helping a partner with a problem overcome that problem and return to his or her previous level of performance is a rewarding experience well worth the time and energy expended.

In the many cases we have dealt with over the years, in almost every case the problem was personal in nature. This has included alcohol problems, marriage problems, family problems, and psychiatric problems. With the determination and help of the partners, we have been able to assist them in dealing with these problems and continuing as productive members of the firm. This is part of being a partner in a partnership. Taking care of each other is the right thing to do.

A Final Thought

What holds a firm together? It is not the partnership agreement. It is the faith that collectively we can achieve more financially and professionally as a unit than we could individually. It is about a group of people with shared goals and a shared vision for the future. It is important to remember that the firm's goals must be a composite of the individual owners' goals. If there is constant conflict, it will not work out in the long run.

About the Author

J. Curt Mingle is the Senior Executive Partner of Clifton Gunderson LLP, a regional firm with 16 client service centers operating in 13 states. Curt has been a partner for more than 25 years, and served as the firm's Managing Partner from 1980 until 1993, a period of time in which Clifton Gunderson's fees grew from $10 million to more than $50 million, and average earnings of partners more than doubled.

Curt has served on eight different committees of the AICPA, including the initial Strategic Planning Committee, and served for four years as a member of the AICPA's Board of Directors. He was also a member of AICPA Council for seven years. Curt also served for three years as a trustee of the Financial Accounting Foundation, the umbrella organization for the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB), and has served as Chairman of the Special Committee on Regulation and Structure of the Profession.

Curt now serves as a consultant to local and regional CPA firms and CPA firm associations. He has worked with more than 100 firms in the last few years, assisting in such areas as training programs for staff and partners, leadership development programs, facilitation of partner retreats, strategic planning, and assistance in merger discussions and merger integration. In addition, Curt has assisted Clifton Gunderson clients in all facets of their strategic planning needs. *Accounting Today*, in naming Curt one of the "top 100 most influential people in accounting" in 1995, said the following, "a strong voice for small firms and a sought-after advisor on practice management issues."

Curt has written numerous articles for the *Journal of Accountancy*, *The Practicing CPA*, and other publications. He has served as a member of the *Journal of Accountancy* editorial advisory board.

Curt is a frequent speaker at AICPA and state society conferences on areas of practice management. He has made presentations for more than 25 state societies.

Curt lives with his wife Evelyn and their two collies, Duke and Pilgrim, in the village of Ephraim in Door County, Wisconsin.

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